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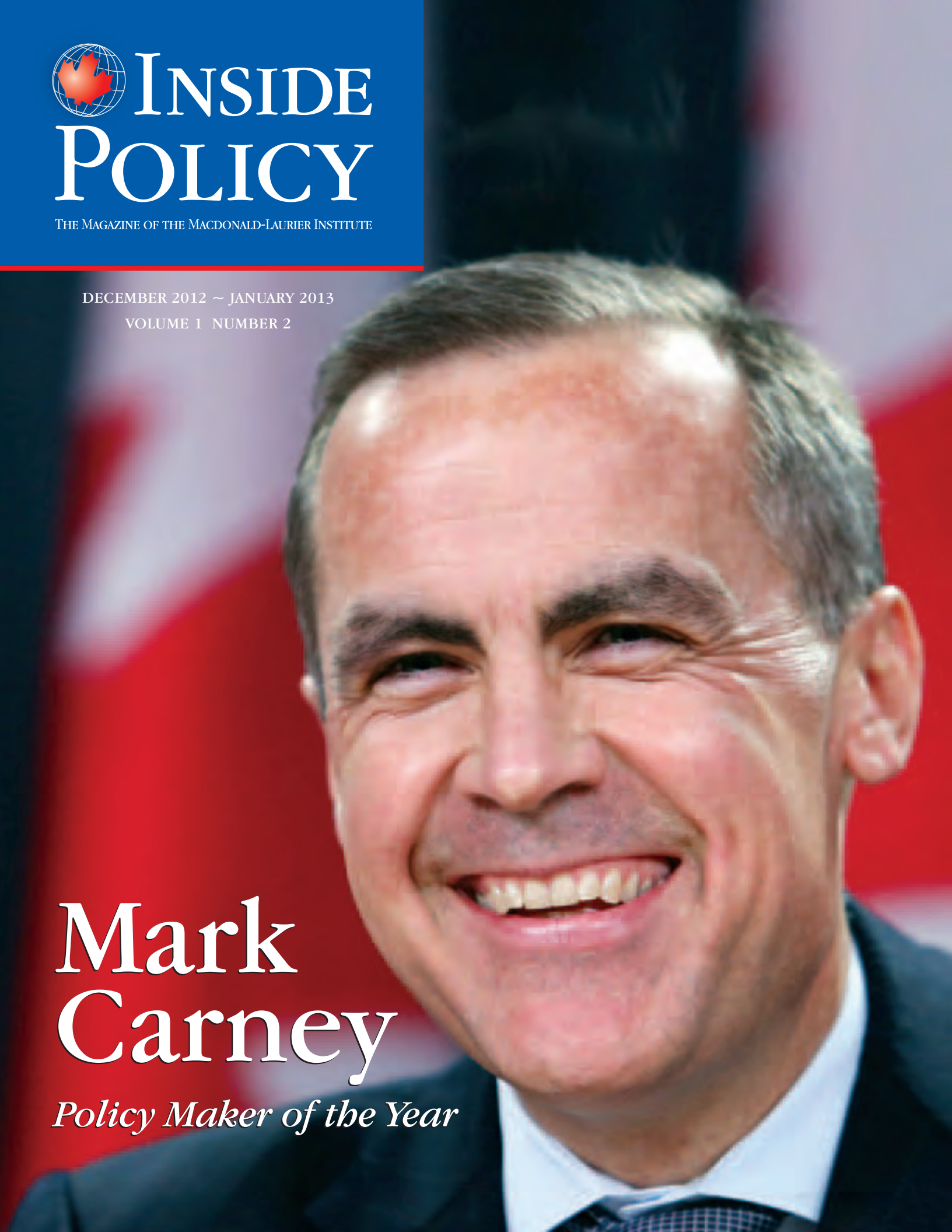

Mark Carney

Policy Maker of the Year

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INSIDE POLICY

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Cover Photo: Cover: Mark Carney smiles at an Ottawa news conference announcing his appointment as head of the Bank of England. Canadian Press Photo, Fred Chartrand.

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EDITOR'S NOTE

The Year in Review

In this issue, we review policy and politics in 2012, a remarkable year in many respects.

For openers, *Inside Policy* and the Macdonald-Laurier Institute have selected Bank of Canada Governor Mark Carney as Canada's Policy Maker of the Year. Carney has emerged not only as the architect of Canada's monetary policy, but as a leading figure among central bankers on the international stage. Carney and Finance Minister Jim Flaherty are senior personalities among G7 and G20 central bankers and finance ministers. Robin Sears profiles Carney in our cover story.

While Carney is our pick as Policy Maker of the Year, NDP Leader Tom Mulcair was obviously an unofficial political player of the year. Not only did he win the NDP leadership, but he has kept the Official Opposition united behind him as a surprisingly disciplined team in the House of Commons. We asked NDP insider Brad Lavigne, NDP campaign director in 2011, to write an appraisal of Mulcair's first nine months on the job, and the challenges he faces in the run-up to the next election in 2015.

Looking at the economy in 2012, Kevin Lynch and Karen Miske of BMO Financial Group write that Canada is in very good shape "relatively speaking," compared to most of our partners in the G7 and G20.

It was also a year when economic and social policy met, and both won, writes Geoff Norquay, citing health care funding and public service pension reform, as well as reforms to Employment Insurance and Old Age Security.

From Montreal, Celine Cooper looks back at the Quebec election and writes how the Parti Québécois played the identity and language card, but in a world that has moved beyond that. And presidential scholar Gil Troy offers a wrap on the 2012 race for the White House, and concludes that President Barack Obama was running against himself – candidate Obama from 2008.

Two former prime ministers also grace our pages. We have a *Verbatim* of Brian Mulroney's speech to the Free Trade @ 25 Tribute Dinner in his honour in Toronto in October. Of the many results of free trade he cites the continuum of trade policy by successive governments, and the "confidence in the ability of Canadian firms to compete on a level playing field." And Paul Martin spoke to a Washington symposium on fiscal frameworks organized by MLI and the American Enterprise Institute. While the US is facing a "fiscal cliff," Canada has benefited from the fiscal dividend of a decade of balanced budgets, surpluses, and paying down debt. Martin had a lot to do with that, and suggests the US can learn from it.

Finally, from the MLI *Great Canadian Debates*, columnist Jeffrey Simpson argues Yes on whether the War of 1812 has been overhyped, while historian Jack Granatstein is a No.

L. Ian MacDonald
EDITOR, *INSIDE POLICY*

LE MOT DU RÉDACTEUR EN CHEF

Revue de l'année 2012

Ce numéro propose un bilan politique et stratégique d'une année à maints égards remarquable.

Signalons pour commencer que le gouverneur de la Banque du Canada Mark Carney a été désigné Décideur de l'année par *Inside Policy* et l'Institut Macdonald-Laurier. M. Carney s'est imposé en tant qu'architecte de notre politique monétaire mais aussi comme figure de proue des milieux financiers mondiaux. Avec notre ministre des Finances Jim Flaherty, M. Carney jouit en effet d'une solide influence parmi les banquiers centraux et les ministres des Finances du G7 et du G20. Robin Sears brosse son portrait en lien avec notre thème mensuel.

Par rapport à Mark Carney, le chef néo-démocrate Thomas Mulcair a été un acteur politique moins en pointe mais tout aussi méritant. Non seulement a-t-il élu à la tête du parti formant l'Opposition officielle, mais il en a préservé l'unité et a dirigé à la Chambre des communes une équipe étonnamment disciplinée. Brad Lavigne, stratège du NPD et directeur de sa campagne 2011, évalue les neuf premiers mois de M. Mulcair et les défis qui l'attendent en vue des élections de 2015.

Sur le plan économique, Kevin Lynch et Karen Miske, de BMO Groupe financier, estiment que « toutes proportions gardées », le Canada est en bonne position comparativement à ses partenaires du G7 et du G20.

Et Geoff Norquay note qu'on a vu cette année la rencontre des politiques économiques et sociales, citant le financement des soins de santé et la réforme des pensions de la fonction publique, de l'assurance-emploi et de la Sécurité de la vieillesse.

De Montréal, Celine Cooper revient sur les élections au Québec pour observer que le Parti québécois a joué la carte linguistique et identitaire dans un monde qui a pourtant dépassé cet enjeu. Et l'historien Gil Troy fait le point sur la course 2012 à la Maison-Blanche, notant que le président Obama avait lui-même pour adversaire, c'est-à-dire le candidat de l'espoir de 2008.

Place maintenant à deux anciens premiers ministres. Et tout d'abord au discours prononcé en octobre par Brian Mulroney lors de la soirée *Les 25 ans du libre-échange*, donnée en son honneur à Toronto. Il y souligne que tous les gouvernements ont depuis appliqué une politique de libre-échange qui a raffermi « la confiance de nos entreprises et leur capacité à s'imposer à conditions égales ». De son côté, Paul Martin était l'invité d'un symposium sur les cadres financiers organisé à Washington par l'IML et le American Enterprise Institute. Tandis que les Américains font face à un « mur budgétaire », a-t-il expliqué, le Canada engrange les dividendes d'une décennie de budgets équilibrés, de surplus et de remboursement de la dette. Un exploit auquel a grandement contribué M. Martin, pour qui les États-Unis devraient s'en inspirer.

Dans le cadre des *Grands débats canadiens* de l'IML, le chroniqueur Jeffrey Simpson juge enfin que l'importance de la guerre de 1812 a été surestimée, contre l'avis de l'historien Jack Granatstein.

L. Ian MacDonald
LE RÉDACTEUR EN CHEF, *INSIDE POLICY*

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Canada's Boring Banker: Policy Maker of the Year

Robin V. Sears

Bank of Canada Governor Mark Carney was on the move constantly in 2012, speaking across Canada on monetary policy and the global economy and attending G7 and G20 summits, not to mention chairing the Financial Stability Board. At the end of November, he was named Governor of the Bank of England. Montreal *Gazette*.

Bank of Canada Governor Mark Carney is *Inside Policy* Magazine's and the Macdonald-Laurier Institute's Policy Maker of the Year. Appointed Governor of the Bank in 2008, he has become a ranking figure on the financial world stage. His background as an investment banker at Goldman Sachs stood Canada in good stead during the financial meltdown of 2008. Such is his stature in the international finance community that he was named Chairman of the Financial Stability Board in Basel, Switzerland, a part-time position. And on November 26, he resigned as Governor of the Bank of Canada effective next June to become Governor of the Bank of England effective on July 1. While it's unusual to imagine a central banker as a policy star, that's what Carney has become. Robin Sears profiles our Policy Maker of the Year.

Mark Carney, gouverneur de la Banque du Canada, a été désigné Décideur de l'année par *Inside Policy* et l'Institut Macdonald-Laurier. Nommé à ce poste en 2008, M. Carney est aujourd'hui une personnalité de haut rang de la communauté financière mondiale. Son expérience de banquier d'affaires chez Goldman Sachs avait favorisé la bonne tenue du Canada pendant la crise financière de 2008. Et son rayonnement est tel qu'il a été nommé président du Conseil de stabilité financière, établi à Bâle (Suisse), poste à temps partiel. À noter que le 26 novembre dernier, M. Carney a remis à la Banque du Canada une démission qui prendra effet en juin 2013, et qu'il deviendra le 1er juillet gouverneur de la Banque d'Angleterre. Robin Sears brosse le portrait d'un banquier central devenu contre toute attente une célébrité des milieux décisionnels internationaux.

Mark Carney describes his personal goal as Canada's most important banker as, "To return to boring." Quoting Mervyn King, the crusty head of the Bank of England, he chuckles slightly as he recalls King's cautionary advice to central bankers: "Boring is best!" King added that if you are on "the front page a lot that is not a mark of success." Carney declares deadpan that he looks forward to returning to boring.

One suspects he knows full well that as Canada's most prominent central banker ever, that is not likely while playing navigator for the nation's economy as it struggles to avoid a return to the bloodiest economic chaos in three generations. In his work on the implementation of Basel III, the latest set of post-crash rules for banks around the world, and as head of the Financial Stability Board, Carney, in less than five years on the job, has had a greater impact on public policy than any Bank of Canada governor before him. And now that he's going to London as the new head of the Bank of England, his influence will grow even more.

Carney is the model of a modern regulator in many ways. He is accessible to his many stakeholders, astonishing quite a few when he agreed to give what became a very front page speech at the Canadian Autoworkers Union convention, of all groups. He avoids the camouflage of the felt mouth, jargon dripping vernacular favoured by many of his peers. He understands well the interplay between Bank policy, media intermediation, and the behaviour of both consumers and key decision makers in the economy. He returns several times in conversation to the importance of the market's perception of the Bank's intentions and the importance of delivering those messages often and loud.

Some have criticized him for being too fond of displaying his cleverness and his erudition. If that were true in his early days in the public spotlight, it is not today. You give your head a shake many times in discussion with him, recalling that this is a man who played a key role in managing Russia's public debt in his early 30s, was chosen as number three at the Department of Finance before he was 40, and became Governor of the Bank of Canada while still in his early 40s. One can perhaps forgive someone of those demonstrated achievements a touch of immodesty in his manner of speech at 37, his age when he moved from multimillionaire investment banker to Canadian public servant.

Still one can forgive a less confident or jealous colleague grinding their teeth when he draws on his prodigious reading to casually cite Tommaso Padoa-Schioppa, "you know, probably Italy's greatest banker in this century, conceived the euro, sadly died a couple of years ago." Carney offers the quote apropos his decision to move from Wall Street to Wellington Street, into the chairman's office in the ghastly grey stone and black glass mausoleum that is home to Canada's central bank. Carney says, "When people ask me why I would do something so extraordinary, I quote Tomasso, who said a gentleman's life should be 'to learn, to earn, and to serve'." It's a clever way to shut down a discussion of his decision to trade wealth for power.

He understands well the power and importance of humility when dealing with as cruel a mistress as global capital markets. Reflecting on the impact of his time on the Street, as a rising star at the then most prestigious investment bank in the world, Goldman Sachs, Carney says that time in international finance teaches you about markets, but more importantly teaches you humility about how little certainty you have about what moves them. He is clearly proud of his time as a successful player in the ultra-competitive world of global investment banking in Tokyo, London, and New York. It has been an impressive journey for the son of two high school teachers, born in Ft. Smith in the Northwest Territories.

He brushes off inquiry into his family and personal history. "I'm not a politician, after all" he chuckles. One should conclude though that his were two impressive parents, nurturing four children (two brothers and a sister) to success – there are three Harvard graduates among Mark Carney and his brothers. Carney keeps his political convictions appropriately well buried, but there are clues; his choice of Nuffield as his Oxford college, for example. Nuffield College is home to progressive thinkers and writers such as Robert Skidelsky, Keynes' biographer, and Amartya Sen, probably the seminal thinker on development economics in the past century. It's the place where industrial relations was honed into a real profession. A college of somewhat pinkish hue, in other words. It's also where he met his development economist wife Diana, a Brit with impressive professional credentials of her own, who he successfully lured to the frozen north.

Though the fear of catastrophe also gets much of the credit for the success of the post-crash reform efforts among the G20, the negotiating skills of Carney and his former boss and Finance Minister Jim Flaherty were powerful contributions at several tables over the past five years. Each has been chosen as first among equals by juries of their peers – a twofer unheard of in Canadian history.

Carney also believes that time on the Street is important to public sector bankers and regulators because of the hard lessons one learns in negotiation, deal making, and the necessary structure of transactions. With just a hint of condescension toward the endlessly circular, risk avoiding, "Yes, Minister" behaviour of too many senior civil servants – my description, not his – he outlines the value at an international governmental level of having spent long hours crafting a successful transaction with partners from other cultures, everyone facing real drop dead deadlines.

Mark Carney at the Financial Times Canada Business Day forum in London. "He understands well", writes Robin Sears, "the interplay between Bank policy, media intermediation, and the behaviour of both consumers and decision makers in the economy." Carney will be spending a lot more time in London in his new role as Governor of the Bank of England. Photo courtesy Bank of Canada.

Too many government negotiators are driven into paralysis by their dread of the reaction to a compromise deal in which some stakeholders' interests were sliced. It leads to endless years of meaningless negotiation, such as the infamous Doha trade talks. Investment bankers only get rich when they complete deals, not when they avoid closure. Though the fear of catastrophe also gets much of the credit for the success of the post-crash reform efforts among the G20, the negotiating skills of Carney and his former boss and Finance Minister Jim Flaherty were powerful contributions at several tables over the past five years. Each has been chosen as first among equals by juries of their peers – a twofer unheard of in Canadian history.

Carney is stating what is obvious to most of the developed world: in choosing someone to regulate the private sector, it's useful for the candidate to have had experience in it. Sadly, it is not so obvious to Canadian decision makers. There is no country that values leadership experience in both the public and private sectors as little as we do. This is curious. Our public sector is large and its leaders are mostly best in class professionals by any international standard. Some of our best public servant leaders are regularly plucked for the most prestigious roles in international institutions – as Carney himself has been with his November 26 appointment as the Governor of the Bank of England.

Similarly, a variety of global multinational enterprises have disproportionate numbers of Canadians in their senior management. Canadians are good at management, in part because we are good at putting ourselves in the other person's shoes, across cultures, generations, and the public/private sector divide. You'd think the penny would have dropped among our politicians and business leaders choosing their lieutenants and successors, but sadly that is another Canadian *deux solitudes*.

When the young Canadian banker arrived fresh from success and acclaim in New York and internationally, there were mutters from the usual Canadian suspects about his lack of roots in any finance ministry, let alone a central bank. In addition, he was young, and looked younger – he was the father of small children, for heaven's sake! Canadian central bankers had always come with grey hair, and won the Bank chair as a career capper after a long slow climb in the public sector.

Although American banks had not yet acquired the dim public reputation they earned in the 2008 collapse, many Canadian politicians and commentators tut-tutted quietly about

the value of experience in the "cowboy world of US investment banking." Partly, one suspects typical Canadian sanctimony about American behaviour. Along with many American liberal commentators, it has become a cliché to label American public servants and regulators with a previous career in business as being incapable of disciplining their former colleagues. It is nonsense, of course. There are compliant and vacillating regulators whose entire career has been on the government payroll. There are steely, high expectation and high integrity public regulators who cut their eyeteeth as junior executives in every type of private enterprise.

Carney is clearly one of the latter, along with the new US derivatives market cop, Gary Gensler, a former colleague at Goldman Sachs. Gensler left the Street to help craft the Clinton era financial reforms under Bob Rubin, then the eponymous Sarbanes/Oxley rules for the late Maryland politician. As the head of the CFTC, the derivatives regulator, criticism of Gensler has come from both left and right, but his harshest critics are often angry executives in the banking world, led by the notorious Jamie Dimon, head of JP Morgan Chase. One suspects Dimon's anger – turned on Carney, as well, in one famous private encounter early in his Bank term – is driven in part because his tormentors are *vendus*, former colleagues from the Street.

Neither Carney nor Gensler will be critical of their fellow regulators without knowledge of the mumbo jumbo and foolish pretences of the private sector, or their former employers' vacuous claims of "risk probity" and "client first" business cultures. It is self-evident that Tim Geithner's ability to translate the bafflegab he may be fed by a bank executive seeking exceptional or merely gentler treatment, after a life spent in government and at the Fed, is not going to be as strong as Carney's. Canadian bankers, even when being critical of his determination on issues about which they disagree, admit that he "knows the business, he knows how we work".

As Carney outlined in a series of little noticed but tough and prescient speeches just as the 2008 financial crisis was breaking all around him, two themes recurred throughout the disaster: a failure – in some cases, deliberate – to accurately assess risk; and a shallow and sometimes completely inaccurate understanding of what the complex new financial products and transactions were and the risk multipliers built into them.

As Carney observes, looking forward in the world of central banking, the same factors will no doubt reemerge with new labels and packaging in the next cycle. He describes the parallels between Canada's asset backed commercial paper (ABCP) fiasco and the risks inherent in some new products financial engineers have been trying to slide into the market. He points to the similar risks we faced in the regional meltdowns in Japan, Russia, and Asia. The combination of the world's first truly global capital markets accelerating the flow of funds in and out of developing economies with inaccurate risk calculation, and a contagion potential on the same level as an H1N1 flu virus, produced devastating outcomes, sometimes in days.

He recalls the universally respected American-Israeli banker Stan Fischer's painful aphorism, "Crises always take far longer to develop than you think, and then hit much faster and harder than you had planned."

Carney clearly loves his work, knows he is making a difference at it, and is realistic about the limits of regulators' ability to prevent yet another market meltdown. He has that uniquely Canadian combination of aspiration and enthusiasm mixed with a calm acceptance of human frailties, the excesses of the powerful, and the importance of carrying on nonetheless. He is a student of his predecessors and their fates, and that history informs his view of his boundaries. He declares with clear admiration that he and the Bank are still "living on the political capital, the space, and the respect" that previous governors such as James Coyne and John Crow have bequeathed him. It was "their courage, their vision, their pioneering that gave us the independence we have today. We are still following many of their innovations – the importance of price stability, for example – and I am very grateful" for that bequest he says, with some emotion.

He declares with clear admiration that he and the Bank are still "living on the political capital, the space, and the respect" that previous governors such as James Coyne and John Crow have bequeathed him.

He recognizes that his has been a special time, that the crisis permitted him and his fellow super-regulators to successfully push changes that would not have been possible in quieter times. He also expects that this period will last for a while longer, as the efforts to move from agreed analysis of the systemic problems to the creation and approval of pragmatic solutions to the challenges of their execution will continue for some years. He accepts that the power of an integrated, high level agreement project endorsed by the Bank for International Settlement – the Central Banker's bank – the IMF, and the World Bank, and his own Financial Stability Board, cannot be one-size-fits-all at the national level.

In Canada, Carney says, "Our regulatory tradition is that we share information. When we had concerns about household debt, mortgages, there was a discussion among CMHC, the Bank, the department of Finance, and OSFI (the Office of Supervision of Financial Institutions, Canada's senior bank regulator). We discuss, we agree, and then we each do our part of getting the message out." Other countries have very different cultures and traditions in this field. The Americans, he points out, are constitutionally required by the division

Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney. Flaherty calls Carney's departure for the Bank of England "bittersweet" and a loss for Canada, but added: "It's important for the world financial system that Mark is doing what he's doing." Department of Finance photo.

of powers doctrine not to share information – co-ordination is much tougher.

The ability to act in concert at the national level depends, as he puts it delicately, "on your culture, on the strength of your institutions". Some cultures are more adversarial than others he observes, and in some cases bank leaders have been more confrontational than he would have hoped. Perhaps as the wish being father to the thought, he claims that these tensions are decreasing and that the levels of co-operation are improving broadly.

Carney's is the voice of a veteran, even of a retired general, as he casts his mind back over the history of financial regulation, as he muses on the limits of regulatory power today, and cautiously forecasts where his institution and its peers may be headed. Yet he is only 47, and the father of four young daughters. It is this gravitas, combined with a winning smile, a wry sense of humour, and a rare ability to communicate complex financial messages in a manner even a semi-comatose post-dinner audience will perk up and listen to avidly, that has contributed to his success.

He is reportedly a demanding but supportive boss, still learning how to conceal his irritation at sloppy or shallow work, even when it comes from another esteemed national regulator. He has that Canadian comfort with a broad array of cultural environments, from the arch ritual and splendor of Swiss banking to the back booth at his favorite Ottawa hamburger joint.

He laughs at his own rationalizations about the compromises a globetrotting life imposes on a young family. "I told Diana when I agreed to do this job that it was far more predictable than my previous roles. I described it as the 'most predictable job in the world.' Well the dates may be predictable, it's just that there are a heck of a lot more of them now than there were, many of them on weekends."

He rues the predictability of his missing key family birthdays, as they each year conflict with fixed international events. Like many a too-travelled dad, he consoles himself with the view that when he is home, he is "really at home: no papers, no distractions."

One who had seen the imagination, creativity, and strength for which he quickly become known was then Ontario civil servant David Lindsay. Lindsay was running the investment arm of the Ontario government, and Carney was one of the investment bankers who worked on privatization and P3 deals for the Harris government.

On the eve of his return to Canada Carney was handed, in 2002, an important assignment with the province of Ontario. The Harris government was in the midst of its hapless energy privatization scheme. Goldman was retained to prepare the province's grid system for a TSE listing. Lindsay said Carney was a calm and devoted adviser through months of back and forth negotiations, capable of seeing the province's political and financial needs as well as the Street's. The deal fell through when interim premier Ernie Eves got cold feet and decided to kill the whole privatization plan.

Asked how Carney reacted to being told that his many months of hard work, endless negotiating time, and deal commission had just gone up in smoke, Lindsay said, "He was completely inscrutable and unflappable. Very mature for a guy in his mid-thirties." One suspects that Carney privately digested with some irritation an early lesson in the difference between the Street and the public sector when it comes to knowing how to complete transactions. Lindsay gave Carney a very strong reference when he was being considered for his post at the Department of Finance and a return to Canada a few months later.

Carney does not seem flummoxed by the central paradox in the task of central banker. As the ultimate guardian of an economy's financial foundation and infrastructure, they must be moved by bank stability, inflation control, and levels of indebtedness. These policies are often in direct conflict with governments keen to spend to spur growth, with banks eager to lend to consumers similarly keen to spend, and with politicians wanting exceptions given election timing or regional political needs, generating permanent tension.

Carney rejects the suggested characterization of the traditional central bank posture as more reactive or even passive, except when moved by crisis. He accepts that the role of his bank and most developed economy central banks has moved closer, probably permanently, to centre stage in policy development and explanation. But he is convinced that this period of exceptional innovation – quantitative easing and open market lending and all the other sometimes panicky measures taken by banks and governments in the wake of the crash – will soon come to an end. He believes that banks

will move back off the front page, as Mervyn King insists they should, even if they continue to have a higher profile and authority in the mix of public and private institutions involved in managing our financial services players.

Carney acknowledges that the international dimension of policy making and execution is not likely to return to the days of jealously guarded national silos, but he believes that the focus will be increasingly on the regulatory side as the waves of globalization continue to generate new products and new risks.

Mark Carney and Jim Flaherty have played exceptional roles in an uniquely stressful moment at the top tables of international finance. Each has said that there were sometimes heated exchanges, and others have reported that each man played the role of peacemaker between several traditional "frenemies". We will wait years before their memoirs allow us to pour over the detailed recounting of those frantic days. Flaherty, a plain spoken senior politician, to put it mildly, has told friends that in the early days of the crisis, he was stunned and then deeply irritated at the theatrical performances of some finance ministers, the predictable strutting of national rivalries, and the "simple, bloody time wasting" in the midst of a fast moving crisis, as he sat long into the night on hours-long conference calls.

Mark Carney has set a high standard for a modern central banker impressively quickly. The job as he has defined it will likely continue to be the mold for the governor of the Bank of Canada for many years to come.

Carney's interlocutors being more often bankers than politicians, one can imagine that the equally long, tense sessions were less about windy speeches than technical one-upmanship. However, as each man struggled to promote the Canadian response to the crisis in the face of sometimes tough resistance, the differences in style must have faded. Some of the name calling directed at Canada – specifically, at Carney and Flaherty – over their struggle to resist an international financial trading tax, the so-called Tobin tax, went public. It will be worth the wait to read their side of the battles of those often frightening days.

It seems hard to believe but Carney and Flaherty are now almost the deans of the G20, as the crisis has been so disruptive to the careers of many of the players over the past five years. Carney has developed a good working relationship with US Fed Chairman Ben Bernanke, who is rumoured to be thinking of stepping down during this next presidential term. There will be new heads, at several of the central banks and international financial institutions within this period as well, including Carney himself as Governor of the Bank of England, starting July 1 – as it happens, Canada Day.

It would be excessive to suggest that in these fora an "Ottawa Consensus" has replaced the somewhat discredited "Washington Consensus" of the 1980s and 1990s. But it is the case that Canada's almost unique success in managing to avoid either bank failure or long lasting recession has given new authority to our view of the best approaches to fiscal and monetary management.

Appointed in early 2008, just before the roof collapsed, Mark Carney has set a high standard for a modern central banker impressively quickly. The job as he has defined it will likely continue to be the mold for the governor of the Bank of Canada for many years to come. It is now a much more public role requiring communication skills at the level of a political leader, not a deputy minister. It will continue to be a role requiring persuasive skill at moving Canadians in their private financial decision making.

Future governors may not punch so far above their weight internationally – that the head of the world's most important new financial regulatory body comes from a nation representing less than 3 percent of the world's GDP is probably not sustainable, and perhaps is even a one-off. However, it seems likely that Canada and its Bank governor will continue to play outsize roles in international financial regulations just as we have done in many international institutions.

Without diminishing the role he has played internationally, perhaps Carney's greatest achievement has been his impact on the Canadian public. We have never had a Bank governor with his profile and popularity with ordinary Canadians. He unscrambles financial complexity with the skill and compelling clarity of a good teacher. Carney certainly deserves his designation as "Policy Maker of the Year."

He will probably be remembered by most Canadians, however, as our best financial "policy explainer". He helped us navigate our way through the worst crisis in our lives. Perhaps more importantly, in the long term, he explained in clear, respectful detail why he wanted us to follow his route back to financial health. Sometimes that clarity got him into trouble – "dead money" will now be part of every Carney bio – but the impact he has already had in raising the financial literacy of a generation of Canadians was surely worth it.

But do not confuse clarity with discretion in a powerful central banker. In almost an hour long discussion only three days before his announcement that he was moving, not a hint was dropped about his now very different future.

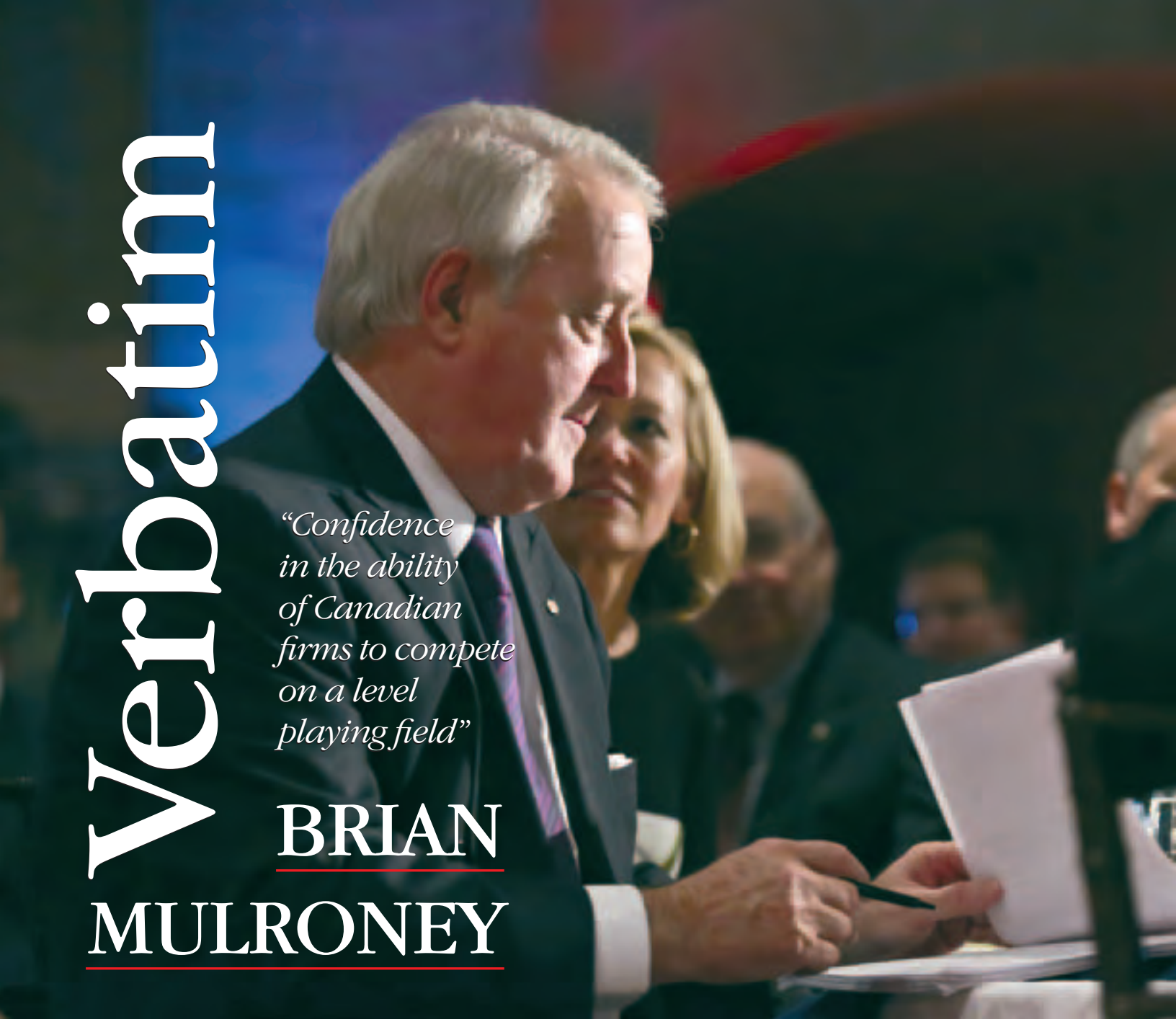
It will be fascinating to watch how a "rude colonial boy", even if he was Canada's most successful central banker, transforms the much stodgier Grey Lady of Threadneedle Street, the Bank of England.

Robin Sears (robin@earnscliffe.ca) is a principal at the Earnscliffe Strategy Group. He has been a commentator and writer on public policy issues for more than three decades, having worked in public affairs on three continents over that period. He served as National Director of the NDP for seven years, before assignments in Europe and Asia.

Verbatim

"Confidence in the ability of Canadian firms to compete on a level playing field"

BRIAN MULRONEY



Brian Mulroney checks his speaking notes for his keynote address to the Free Trade @ 25 Tribute Dinner in Toronto on October 3. "The politics of free trade were always much more daunting – as Sir Wilfrid Laurier learned first-hand in 1911", he said. "For some Canadians any negotiation with the US could easily be portrayed as a presciption for disaster." *Inside Policy* photo by Adam Scotti.

On the 25th anniversary of the negotiation of the Canada-US Free Trade Agreement, former Prime Minister Brian Mulroney delivered a major keynote address at a Toronto Tribute Dinner, following a symposium organized by the Munk School of Global Affairs. The Macdonald-Laurier Institute was Think Tank Partner for the evening event.

À l'occasion du 25e anniversaire de la conclusion de l'Accord de libre-échange canado-américain, l'ancien premier ministre Brian Mulroney a prononcé un important discours lors de la réception ayant clôturé un symposium organisé par l'École Munk des Affaires internationales. L'Institut Macdonald-Laurier était partenaire de la soirée.

This date, October 3, brings back very vivid memories of what transpired 25 years ago tonight. The deadline for the US administration to report to Congress on whether it had the basis for a free trade agreement with Canada under fast track authority was midnight. At just about this time that evening I had received word that negotiations were still at an impasse on the issue of dispute settlement, which had been the *sine qua non* condition of success for Canada.

For many months leading up to the events of October 1987, the US team had focussed primarily on resolving trade and investment "irritants" with Canada and not the prospect of a comprehensive agreement. It was only when the Americans at the highest level recognized that this approach would not be sufficient for Canada that a broad gauged negotiation gained traction and firm political direction.

President Reagan wanted a free trade agreement with Canada, and when a US president signals this clearly, the administration responds. The powerful Treasury Secretary Jim Baker had been designated by the president to bring the negotiation to a successful conclusion. He was determined to deliver for his president and proved to be the right man at the right time.
Baker's counterpart during the final rounds of negotiation was my equally determined and talented chief of staff, Derek Burney.

From the start, our basic objective had been to secure and enhance access to our major market. At a time of rampant protectionist actions by the US Congress, securing that vital access on a more confident platform for Canadian exporters was essential.

From the start, our basic objective had been to secure and enhance access to our major market. At a time of rampant protectionist actions by the US Congress, securing that vital access on a more confident platform for Canadian exporters was essential. That is why a binding dispute settlement mechanism was the crunch issue for Canada.

How could it be otherwise? With an economy 10 times the size of ours, the US could crush us in any dispute unless we were assured of fairness by some recognized instrument of judicial equality in resolving disputes. I had told our team "no dispute settlement process, no deal."

Throughout the two year negotiation, the other fundamental instruction I had given our negotiating team was that the agreement had to "significantly improve" our trade relationship with the US. Equally, we had resolved that "no deal would be better than a bad deal" and that certainly guided our tactics up to the very end.

We of course also recognized fully that such an agreement had to be good for both sides or it would in the end fail in any ratification process or the court of public opinion.

In a decision that startled the US administration, I had recalled our chief negotiator, signalling our deep discontent with the progress of negotiations. The appointment of Secretary Baker was President Reagan's response and this was a godsend for both parties.

In the final moments on October 3, Baker had been networking strenuously with key Congressional players and several on his own negotiating team to accept a formula for dispute settlement that would meet Canada's bottom line. He was under no illusion that we would accept a deal that did not include binding, binational dispute settlement.

At about 9.30 pm, Baker called me in my Langevin Block office in Ottawa to tell me that, while we were very close to an agreement, he doubted that he could get the dispute settlement mechanism because congressional leaders argued it would dilute their constitutional sovereignty in matters of international trade.

I thanked Baker and told him that, as the talks were now in danger of imminent collapse and failure, I was going to call President Reagan, then at Camp David, to ask him one question. "And, what is that?" asked Baker.

"Well, Jim", I replied, "I'm going to ask the president, how is it that the US can negotiate a major nuclear reduction treaty with its worst enemy, the Soviet Union, and can't negotiate a free trade agreement with its best friend, Canada?" Baker replied, "PM, can you give me 20 minutes?"

At about 10.00 pm that evening, Secretary Baker burst into the anteroom to his Treasury Office in Washington, which was being used by the senior Canadian delegation. He flung a handwritten note on the table and declared "All right, there's your goddamned dispute settlement mechanism. Now can we send the report to Congress?"

Some years later there was a general and independent confirmation of this determination at the highest levels of the US government to adopt a constructive approach to issues of importance and concern to Canada by Frank Carlucci, President Reagan's National Security Adviser and Secretary of Defence.

Carlucci described in an oral history project at the University of Virginia how testy Reagan became when his officials continued to stall and stymie our government on issues ranging from acid rain to Artic sovereignty to free trade.

According to a recent account by Professor Jeffrey L. Chidester, Research Director for Presidential and Special Projects at the University of Virginia, before entering 24 Sussex during a state visit in 1987, Reagan took Carlucci aside and said "I think we should do something for Brian." [Carlucci] said, "Mr. President, we're doing well holding our positions on acid rain, the free trade agreement, and the Northwest passage." "Oh, no, no, no," said Reagan, "we ought to do something."

After lunch, Carlucci continued to push for the American position. "[N]o, no, we're holding to our positions. These are well established positions."

As Carlucci later said: "It was the only time I saw Ronald Reagan lose his temper. He turned to me and said, 'You do it. Now.'"

Chidester writes that Carlucci went right from the meeting and grabbed Derek Burney, Mulroney's chief of staff, and asked, "Derek would you re-iterate your positions [on acid rain, free trade, and the Northwest Passage?]" When Burney asked why, Carlucci said, "Because they're our positions now."

Immediately after that exchange President Reagan sat with his cabinet officials and senior advisers behind closed doors in the living room at 24 Sussex and amended his speech to Parliament slated for that afternoon.

For the first time ever, he wrote that he "agreed to consider" a bilateral agreement with Canada over acid rain and added a promise "to inject new impetus" into talks regarding recognition of Canadian sovereignty over the Arctic.

Professor Chidester concluded: "Personal diplomacy was the only way to break the bureaucratic inertia on these issues."

Only if you have seen the dramatic manner in which a signal from the president galvanizes an entire administration into action, can you fully appreciate the significance of such leadership.

It did again that evening, a quarter century ago.

Anyone who tells you that personal friendship doesn't count in the conduct of foreign affairs – that nations only have interests and nothing else – does not know much about how government or business is done.

Derek quickly called me in Ottawa and reported that "we may have a deal after all", including "binding dispute settlement". I asked whether his team, which included Ministers Michael Wilson and Pat Carney, all agreed that the document would meet our basic objective – "that Canada would be significantly better with it than without" and, one by one, the group of eight Canadians strongly agreed.

These negotiations had definitely been a roller coaster experience with many ups and downs along the way. Success was what Baker himself described in his memoir as a "near run thing." But the support of my cabinet and caucus never wavered and that in itself speaks eloquently to our resolve to stand firm even when the prospects seemed grim.

These negotiations had definitely been a roller coaster experience with many ups and downs along the way. Success was what Baker himself described in his memoir as a "near run thing." But the support of my cabinet and caucus never wavered and that in itself speaks eloquently to our resolve to stand firm even when the prospects seemed grim.

To say that the free trade negotiations had been controversial in Canada would be the understatement of the evening. Debates about the pros and cons were unrelenting all across the country and culminated in a riveting and fiercely fought 1988 election campaign.

The economics of free trade were never in doubt. Study after study, both within government and without, had concluded that liberalizing trade between Canada and the US would bring substantial dividends to both economies. The Macdonald Royal Commission in 1985 added new currency and timely intellectual rigour to these analyses along with its recommendation that Canada take a "leap of faith" and seek such a comprehensive agreement with the US.

The politics of free trade were always much more daunting – as Sir Wilfred Laurier learned first hand in 1911. For some Canadians, any negotiation with the US could easily be portrayed as a prescription for disaster.

Prime Minister Pearson eloquently described a chronic problem facing any Canadian chosen to negotiate with Americans. "The picture of weak and timid Canadian negotiators being pushed around and browbeaten by American representatives into settlements that were 'sellouts' is a false and distorted one. It is often painted, however, by Canadians who think that a sure way to get applause and support is to exploit our anxieties and exaggerate our suspicions over US power and politics."

I appointed tough, experienced Simon Reisman as ambassador and chief negotiator and he put together a first class team of public servants who delivered an agreement that served the national interest in exemplary fashion.

Canadians were also told repeatedly that we could not compete with a country 10 times our size. My government had more confidence in the ability of Canadian firms to compete on an even playing field and we contended further that, if we could not compete successfully in North America, we certainly could not compete in the world.

Critics of the initiative in Canada went to bizarre lengths to try to scare Canadians into believing that the sky would fall under free trade. Medicare, old age pensions, our water resources, and culture – all were said to be at risk. We faced a toxic cocktail of latent anti-American and narrow, protectionist sentiments. They really pulled out all the stops on this one. As a prominent opposition spokesman said at the time, "We will blame every sparrow that falls on free trade."

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pete with a country 10 times our size. My government had more confidence in the ability of Canadian firms to compete on an even playing field and we contended further that, if we could not compete successfully in North America, we certainly could not compete in the world. Fortunately, when confronted with a clear choice, Canadians rallied to our position and we won the election, again with a strong majority.

My government saw these negotiations as a major building block for our future prosperity. We wanted an agreement that would provide conditions for trade that were significantly better for Canada in the American market than the status quo. Most of all, we wanted to restrain the forces of protectionism in the US Congress where every trick in the book was being used to restrict legitimate flows of goods and services from Canada into the US market.

The statistics alone speak to the success of the FTA. Trade volumes more than tripled in less than 20 years – from $235 billion in 1989 to $743 billion in 2008. Trade exploded into the largest bilateral exchanges between any two countries in the history of the world, creating millions of new jobs and record prosperity on both sides of the border, only recently diminished in the US by domestic factors there.

Industries that were purportedly doomed like the vintners in Niagara and the Okanagan are flourishing with better quality, higher priced production. Instead of disappearing, Peerless Clothing Inc. in Montreal has become the largest manufacturer of men's and boy's tailored clothing in the world.

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The FTA proved to be precisely the jolt out of complacency that our firms needed. The economic results were even more positive than anyone envisioned at the time.

In the two hours or so that we will be together this evening, more than $200 million in goods and services will be exchanged by Canada and the US. That is more than $1 million every minute of every hour of every day. Almost $2 billion in total, each and every day of every week of every month of every year.

Of course, the best compliment of all is that many of our harshest political critics became, in time, fervent champions of both the FTA and NAFTA.

I would like to think that the FTA provided a maturing tonic of sorts for Canada as well. We demonstrated, in no uncertain terms, that we could compete successfully in North America. That confidence inspired similar support for broader trade liberalization initiatives around the world.

Free trade was one in a suite of economic policies that worked in tandem to better situate Canada in the world. It wasn't a panacea on its own. However, the psychological fact of free trade was enormous, as it touched our historic uncertainty about identity, ability, and sovereignty. That's why free trade fuelled such an emotional national debate and why, ultimately, its adoption was so critical to Canada. Yes, it brought Canada into a much larger economic space, essential to our long-term prosperity. But it also cleared the air of the old doubts and fears about our capacity to grow and prosper as a mature, distinctive country living as we do cheek by jowl next to the richest and most powerful nation in world history. It required a change in our mentality – from defensive and fearful to confident and ambitious.

Twenty five years means that a whole generation of Canadians has grown up in the context of free trade and investment, and in the context of this more confident and ambitious identity. The impact of free trade on our character and working assumptions is as profound as anything it specifically did to our economy.

The FTA was also critical in establishing the ground for NAFTA, which has been even more transformational to Mexico and subsequently Latin America (economically and socially). The legacy of the FTA extends to many more people in this hemisphere than to Canadians and Americans alone.

It also proved to be a catalyst for the Uruguay Round of multilateral trade negotiations which gave rise to the World Trade Organization, and enshrined dispute settlement provisions very similar to ours, which incidentally, was the last multilateral trade negotiation successfully concluded.

As we look to the future, Canada has many reasons for optimism. At recent G8 and G20 meetings our government stood tall, a beacon of fiscal rectitude in a turbulent world with one of, if not the strongest economies in the industrialized world by most objective criteria.

How did this happen? Well, it did not happen overnight nor under one government or one political party. It happened because, for the better part of almost 30 years, four governments of different political stripes followed similar economic policies that generated stable economic growth, solid job creation, sensible public financing, and a more confident national fabric.

Foundational initiatives by our government such as the Canada-US FTA and NAFTA, along with a wave of privatizations, extensive deregulation, historic tax reform, a low inflation policy, dramatically reduced program spending while trimming the deficit, laid the basis for growth and enabled Canada to compete vigorously in a rapidly globalizing world.

Jean Chrétien had very important decisions to make when he formed the government in 1993. He could have repudiated our trade agreements and tax reform because he had campaigned vigorously against each. Instead, Mr. Chrétien put

Mulroney receives a standing ovation after an introduction by Finance Minister Jim Flaherty, who quoted from the last speech of Thomas D'Arcy McGee: "He who seeks after popularity builds upon a shifting sand." *Inside Policy* photo by Adam Scotti.

campaign rhetoric aside and sustained both the trade and tax initiatives as pillars of record prosperity for Canada.

To his credit, Mr. Chrétien, aided by Finance Minister Paul Martin, used the great economic benefits from free trade and the proceeds of the GST to eliminate the deficit over time and begin the process of paying down the debt in an orderly fashion.

By acting as he did, while slashing government spending and making large investments in university research and significant advances in R&D generally and searching out new avenues for international trade, Mr. Chrétien ensured the continuity of policies that were neither Tory nor Grit, Liberal nor Conservative. They were Canadian, designed to serve our national interest and strengthen our national sovereignty.

This was followed by important measures by the Martin government and by the present Harper government, with its sound and impressive management of the economy, along with beneficial changes to corporate and personal taxes introduced by Finance Minister Flaherty. All of which strengthened our public finances and allowed us to withstand better than most the ravages of the recent economic crisis.

Prime ministers are not perfect. Mistakes are made. I certainly made my share.

But it was this continuum of sensible and effective policies under four different governments led by prime ministers of different political stripes – avoiding the erratic policy lurches of the past – that changed Canadian attitudes and provided the solid economic foundation on which Prime Minister Harper was able to stand when he welcomed world leaders to Canada a few years ago.

The essential continuity of governments from Mulroney through Chrétien and Martin to Harper explains a great deal of what is right about Canada today.

No one should underestimate the value of this continuity. Serious public policy can only be conceived and practised over decades – not four year terms. We have had the great good fortune to see governments of different stripes "pass and accept the torch" over the past 30 years, rather than stop, and then try to start a new game based on discredited ideologies or personal agendas.

Twenty five years ago tonight, Canada took a bold step to safeguard and bolster trade and investment with Canada's major market. The FTA was born out of a need to seek strategic advantage in the national interest. It inspired Canadian companies to innovate and network in a much more competitive and potentially rewarding setting.

The challenges Canada faces today demand a similar mix of leadership, courage, and commitment. We can no longer depend exclusively for future prosperity on domestic and US markets.

As Bank of Canada Governor Mark Carney, among others, has pointed out, much of global growth is now being driven by a group of dynamic economies led by China, Brazil, and India along with Colombia, Mexico, Korea, Turkey, Vietnam,

and Indonesia. All have rapidly growing middle classes, high savings rates, and stable regulatory regimes.

Some have suggested that the global economy is experiencing a major transformation larger in scope and scale and on a much faster track than the Industrial Revolution.

Canada is a distinctly minor player in these fast growing markets: less than 10 percent of our exports and less than 4 percent of outward investments go to these emerging markets. We are no longer in the top 10 of global trading nations. We barely make the top 15.

The good news is that the demand for commodities, everything from minerals and energy to agri-food products, offers huge potential for Canada. These markets also include a strong demand for Canadian high-tech products (aircraft, smart phones, software services, autos, energy technologies, entertainment) and world-class services in banking, insurance, and consulting. For example, more than 20 Canadian architectural and design firms are already active in China.

But we cannot sit back and wait for opportunity to knock at our door. We have to work for it, engaging a unique and coherent partnership between government and the private sector.

What many of these emerging markets have in common is the extent to which the "visible" hand of government is directing economic policy. Conventional rules for trade and investment that carried us through the last half of the 20th century will not be sufficient.

Our negotiators will need to be nimble and determined as they leverage and exploit our comparative advantages to specific, strategic objectives that will safeguard and enhance vital market access, and preserve intellectual property rights and the sanctity of a rules-based trading system.

The challenges are daunting but the opportunities are enormous. Tangible moves to more open trade and investment are still the best tonics for the global economy and should be encouraged by all with a stake in our future prosperity.

Of course there will be risks. There is no success in business or in government or in life that is entirely risk free.

Business needs to look beyond quarterly earnings and build and nurture relationships that will pay long-term dividends. Corporate balance sheets are more than sufficient to enable firms here to upgrade plant and equipment and especially IT capabilities – the springboards for innovation and productivity.

From government, we need a sharper focus on which markets should command priority for trade negotiations and why.

Whether on trade agreements or foreign investment approvals, the judgements by governments inevitably reflect a balance between economic theory and political reality. In other words, between what makes sense economically and what can be sustained politically. The choice ultimately hinges on leadership – the most precious commodity for any government.

Leadership is the process, not only of foreseeing the need for change, but of making the case for change. Leadership does not consist of imposing unpopular ideas on the public, but of making unpopular ideas acceptable to the nation. This requires a very solid argument for change, and a very strong ability to make the argument, over and over again.

In a brilliant address delivered some years ago in Toronto, Theodore Sorenson – himself a skilled observer of powerful leaders as special counsel to Presidents Kennedy and Johnson – said: "Once in office those who wish to stand up and stand out and leave something enduring behind must build new institutions, not new images. They must look to the next generation, not merely the next election. They must talk in terms of fundamental values, not merely costs. They must appeal to our hopes as well as our needs, to what we long to be and what we know is right. That's leadership."

The impact of significant public policy decisions is often unclear in the early years. It sometimes takes a considerable period – frequently decades – before the full consequences of an important initiative become apparent.

As Reinhold Niebuhr reminded us, "Nothing worth doing is completed in our lifetime; therefore we must be saved by hope. Nothing fine or beautiful or good makes complete sense in any immediate context of history; therefore, we must be saved by faith."

It is in this perspective that great and controversial questions of public policy must be considered.

Time is the ally of leaders who placed the defence of principle ahead of the pursuit of popularity. And history has little time for the marginal roles played by the carpers and complainers and less for their opinions.

Time is the ally of leaders who placed the defence of principle ahead of the pursuit of popularity. And history has little time for the marginal roles played by the carpers and complainers and less for their opinions.

A generation of Canadians has grown to maturity over the past 25 years under the assumptions of liberal economics and international integration for Canada. This is now a Canada that is confident and ambitious, not just in relationship to the United States, but in relationship to the world.

The policies that created this stance have influenced the character of Canadians themselves. Our citizens are now more habitually at ease with themselves as Canadians, demanding of themselves as Canadians, and outward looking as Canadians.

This is perhaps the most profound of all the material legacies of 25 years of practice since free trade and its suite of visionary policies brought so much practical change and prosperity to Canada.

Delivered at the Free Trade @ 25 Tribute Dinner, Toronto, October 3, 2012.

Consolidating the Orange Crush

Brad Lavigne

Tom Mulcair at the NDP convention in Ottawa in March. His first job was to unite the party behind his leadership, and by all accounts he has succeeded. NDP photo.

After winning the NDP leadership, Tom Mulcair faced two immediate challenges – to unite the party, and to present it as more than the Official Opposition, but also as a government-in-waiting. More than holding the present government to account, this requires discipline and competence. In his first nine months as Opposition Leader, Mulcair has enjoyed a surprising degree of success. We asked Contributing Writer and NDP insider Brad Lavigne to tell the story so far.

Sitôt élu à la tête du NPD, Thomas Mulcair s'est retrouvé face au double défi d'unifier le parti et de le présenter non seulement comme l'Opposition officielle mais comme le futur gouvernement. Ce qui nécessitait de réclamer des comptes au gouvernement en exercice mais surtout de faire preuve de compétence et de rigueur. Depuis neuf mois qu'il est chef de l'opposition, Thomas Mulcair a favorablement étonné. Nous avons demandé à notre collaborateur Brad Lavigne, qui fut longtemps stratège du NPD, de dresser le bilan de son action.

In Canadian federal politics, there are very few understatements. But to suggest that the New Democratic Party of Canada went through a challenging transition in the last 18 months would be an example of one.

Under the leadership of Jack Layton, the NDP won a historical breakthrough in the May 2011 election that saw it surge from perennial fourth place to Official Opposition, winning 4.6 million votes and 80 percent of the seats in Quebec. The sudden and tragic death of Layton 88 days later forced an unexpected leadership race that neither the party nor any of the contestants wanted or were prepared for.

There was no roadmap for the path forward. The party was simultaneously grieving the sudden loss of its beloved leader, running a highly scrutinized leadership contest, and learning the ropes as the Official Opposition in front of the national media's watchful and, at times, cynical, eye.

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The party could have self-imploded. It could have dove headfirst into an undisciplined messy leadership race that erased all of the gains of the Layton era. But as keen observers of the mistakes made by leadership transitions of other parties, New Democrats didn't let that happen. Interim leader Nycole Turmel did what her friend Jack Layton asked of her and kept the grieving family together until a permanent leader was selected.

In many respects, the leadership race and the work in the House throughout the six month period was a working through of the grief that the caucus and the membership were feeling. Getting right back to work was exactly what Jack would have expected us to do. The way both the membership and the leadership conducted themselves in the last year and a half revealed true character and maturity.

Unlike almost every modern leadership contest, the NDP wasn't choosing a new leader from the ashes of electoral defeat or after an outgoing leader had overstayed their welcome. The contest wasn't about which direction to turn after failure, rather it was about who could be entrusted to keep the momentum going and who could finish the job Jack started. Both front runners, Brian Topp and Tom Mulcair, embraced the Layton legacy and championed its continuation to completion. The recognition of how far the party had come, and the desire to cross the finish line to form government, trumped all other considerations.

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The leadership race showed that the culture of winning is now completely entrenched in the party, from the caucus right down through to the rank and file. There isn't the sense of entitlement that inflicts the Liberal Party of Canada or Bloc Québécois. Rather, there is a focus of purpose that comes from scratching and clawing your way together, from the back of the pack to the Official Opposition. The party had come too far to let a leadership race come between it and victory.

The tidy and disciplined leadership contest, while labelled as dull and boring by some pundits, paved the way for a smooth transition. The leadership contest was the party's first post-Layton test and it passed with flying colours, despite rumblings from the punditry about how Layton's death meant the demise of the Orange Crush. This flawed analysis failed to recognize both the culture change within the party and the transformation of federal politics in the last decade.

Without question, there is a lot of work to do to complete "the project" of electing the first ever New Democrat prime minister and the first few months of a leadership are vital in setting the fundamentals in place to get the NDP there. So, after his first nine months as leader, how is Mulcair doing?

Let's explore three key areas that have defined his leadership so far: uniting the party, taking on Stephen Harper, and entrenching the 2011 Layton voter coalition.

The first job of a leader after a leadership contest is to unite the party. Tom's first test on this front was in crafting his Shadow Cabinet. Stick-handling the critic assignments after a leadership contest is tricky business. Smart leaders make room for those who ran against them while signalling to their own key supporters that not everyone on the winning team gets a desired assignment. And that's exactly what Mulcair did.

Nathan Cullen, Peggy Nash, Paul Dewar, Nikki Ashton, Robert Chisholm, and Romeo Saganash all ran against Tom and they were all appointed to either their previous critic portfolios or to equally important ones. Meanwhile, Topp's supporters, notably Libby Davies, Françoise Boivin, Jinny Sims, Yvon Godin, Jean Crowder, and Alexandre Boulerice all re-

After uniting the NDP, Brad Lavigne writes that Mulcair's job as opposition leader was "taking on Stephen Harper and entrenching the 2011 Layton voter coalition." Throughout the fall session, the NDP has shown remarkable discipline and cohesion in the House. NDP photo.

ceived key positions on Mulcair's front bench. This strategy was precisely what Layton did by appointing Bill Blaikie as Parliamentary Leader in 2003, and it went equal distance in uniting the caucus and the party.

Nobody in caucus was punished for backing a losing horse, and today there is no annexed group sitting in the corner stewing about how they've been shunted. There is no internal opposition within caucus. This has signalled to the media and public that New Democrats can have a vigorous contest, but once it's over, there is one team united behind the leader. This also allowed the caucus to get back to the immediate task of holding the Harper government to account as the Official Opposition.

Under his watch, Mulcair is defining the NDP as a disciplined, professional, competent group that is ready for government. He has allowed his front bench to take up the spotlight on key files, signalling that he has a cabinet-in-waiting within his caucus.

Meanwhile, the discipline showed during both the Quebec student protests and the provincial election shows the rookie MPs have their eye on the ball and refused to be distracted from the job they were elected to do in Ottawa.

In the House, the NDP has been careful not to assume knee-jerk reactions to ministers' missteps. Taking a medium-term approach to building up the narrative that the rot is setting in on a tiring government is a sharp departure from what the previous Official Opposition did. Here, Mulcair is drawing on his years of experience in the opposition benches in the National Assembly, where the Quebec Liberals successfully chipped away at the Parti Québécois government's core competencies day in and day out.

On policy, Mulcair has zeroed in on the failings of the perceived strengths of the Conservatives – the economy and ethics. He's also doubling down on an issue that is a strength for the NDP and serves as a wedge between himself and Harper – sustainable development.

On policy, Mulcair has zeroed in on the failings of the perceived strengths of the Conservatives – the economy and ethics. He's also doubling down on an issue that is a strength for the NDP and serves as a wedge between himself and Harper – sustainable development.

Since the global financial crisis in 2008, the New Democrats have embraced the issue of the economy rather than hide from it. But rather than debate the Conservatives on the macro, the NDP has focused on microeconomic considerations, how the inaction of the government has affected families.

Conservatives want to be known as competent managers of the economy, but the middle class continues to struggle with

record household debt and increasing retirement insecurity. These two issues matter to a voter segment both Mulcair and Harper need to win the next election – suburban households feeling the squeeze. Taking it down to the level of the voter is how the NDP can expose Conservative vulnerabilities on the economy.

One-off ethical lapses have proven to have little negative effect on the Conservative brand. But the NDP is banking – rightly – that the cumulative effect will have greater resonance over time. With the list of breaches by the government growing each month, Mulcair and the caucus are keeping the issue of ethics on the front burner to accelerate the fatigue factor in time for 2015. They are reminding voters that this government is unable to provide the scandal free administration they were first elected to usher in.

Sustainable development is a brand strength for both Mulcair and the party, and offers a significant policy differentiation with the Conservatives. The Conservatives' bizarre and misleading attacks on the NDP that seek to confuse people about the NDP's support for a cap and trade system (the same system outlined in the Tory campaign platform of 2008) just won't cut it. Highlighting sustainable development and Harper's abandonment of his once much touted cap and trade commitment sets up a choice for swing voters between action and inaction.

But careful consideration should be given to the rhetoric that Mulcair and the NDP embrace as they pursue their sensible approach to energy policy and sustainable development. There is a growing audience for an alternative to Harper's lack of action on greenhouse gas emissions and misleading attacks about carbon pricing. Here, Mulcair is seeking to cement the Layton voter coalition from 2011 and expand it.

The trend lines in the public domain polls show that the NDP under Mulcair is equally or more popular than under Layton. Young people, Quebec francophones, and women continue to fuel the NDP's popularity.

There are signs that Mulcair is doing just that.

The trend lines in the public domain polls show that the NDP under Mulcair is equally or more popular than under Layton. Young people, Quebec francophones, and women continue to fuel the NDP's popularity. While it is early into the four year mandate, keeping those who voted for Layton's NDP in 2011 a full year after his death, suggests that those voters are more than satisfied with the direction in which Mulcair is headed. To build on that, Mulcair must close the gender gap and appeal to men, grow in popularity in suburban Canada, and fight for an even greater share of support in ethnic communities.

Shortly after the May 2011 election, many of the new NDP caucus members from Quebec were surprised to learn how little work the defeated Bloc MPs did in their riding. They got lazy and entitled. With 65 newly elected Members of Parliament in the caucus, Mulcair has placed a significant emphasis on each new MP to entrench themselves in their ridings as strong constituency representatives. Every MP has a directive to organize, ensure a high profile, and fundraise at the local level.

That work is starting to pay off, as witnessed at the party's Quebec section convention in Montreal in November, where over 600 delegates attended. This was the largest meeting of the Quebec membership in the party's 50 year history and a testament to the behind the scenes work done in the last year and a half. The assembled group was a mix of old warhorses who had drifted away during the frustrating era of the 1990s and the recent wave of Layton era activists, all of whom want to finish the job in electing Mulcair prime minister.

But to get there, a lot of work still needs to be done. Mulcair needs to continue to put his own mark on the party and further define himself. He needs to avoid the trappings of being opposed to everything and do it without making himself a target, particularly when it comes to two files that will dominate in the coming years: energy policy and trade.

The NDP is not opposed to investment from or trade with China, but Mulcair must eventually signal what he would do differently from Harper on such difficult files. Investors need certainty and Harper is failing to provide it.

On foreign takeovers by state owned enterprises, Mulcair has been careful not to play the anti-China card and focus on process rather than the substance of the CNOOC takeover bid of Nexen. The NDP is not opposed to investment from or trade with China, but Mulcair must eventually signal what he would do differently from Harper on such difficult files. Investors need certainty and Harper is failing to provide it. This is an opportunity for Mulcair to continue the rebranding of the NDP as not only a party with principles but also one that understands the challenging issues that confront not just an Opposition, but a government as well.

Brad Lavigne is a vice president with Hill+Knowlton Strategies, former Principal Secretary to the Hon. Jack Layton, and campaign director of the 2011 NDP national campaign.

Relatively Speaking

CANADA IN A CHANGING AND UNCERTAIN WORLD

Kevin Lynch and Karen Miske

We face a future that will be volatile, uncertain, and profoundly changing. Structural trends are reshaping economics, politics, power, and expectations around the world. Relatively speaking, Canada is in good shape, write Kevin Lynch and Karen Miske of BMO Financial Group. We face the future with clear strengths, including solid macroeconomic policies, a diversified economy with rich natural resources, a well educated labour force, a sound financial system supported by a strong framework of public institutions, and an enviable standard of living. Canada has the potential to adapt to this changing world, but we must aim to be at the forefront of the new competitiveness, avoiding complacency and building on our strengths.

Notre avenir s'annonce instable, incertain et profondément transformé. Les tendances structurelles à l'œuvre dans le monde entier refaçonnent les économies et les attentes, les politiques et les pouvoirs. Les perspectives du Canada sont toutefois relativement bonnes, estiment Kevin Lynch et Karen Miske, de BMO Groupe financier, qui citent parmi ses forces de solides politiques macroéconomiques, une économie diversifiée fondée sur d'abondantes ressources naturelles, une main-d'œuvre bien formée, un excellent système financier soutenu par de robustes institutions publiques et un niveau de vie enviable. Le Canada a donc tout ce qu'il faut pour s'adapter à l'évolution du globe, mais il doit refuser toute complaisance et miser pleinement sur ses forces pour dominer cette nouvelle course à la compétitivité.

As the ballad goes, "the times, they are a-changing". The context we now face is pervasively global and profoundly changing, whether we always like it or not. Structural trends are reshaping economics, politics, power, and expectations around the world. The international economy continues its shift to Asia and other dynamic emerging economies. The aging population in most developed nations is creating a global talent competition. The digital universe is transforming what markets mean and how social interaction and communication take place.

The global outlook is dreary. This fall, we saw a write-down of the International Monetary Fund's (IMF) global growth forecast, as an already tepid global recovery suffered new setbacks with the eurozone back in recession, the US economy losing some momentum, and slowing growth in the BRIC countries (Brazil, Russia, India, and China). The growing worry is that Europe and the United States are exhibiting many of the characteristics of Japan's "lost decade" after its property bubble burst in the early 1990s – certainly not good news. Indeed, for the OECD countries, this recession and recovery really are different – the 2008-09 recession was the worst in the postwar period by a country mile, and the recovery is outside historical bounds, particularly in the US and Europe.

The growing worry is that Europe and the US are exhibiting many of the characteristics of Japan's "lost decade" after its property bubble burst in the early 1990s – certainly not good news. Indeed, for the OECD countries, this recession and recovery really are different – the 2008-09 recession was the worst in the postwar period by a country mile, and the recovery is outside historical bounds, particularly in the US and Europe.

And there is considerable risk. The IMF now foresees "only a gradual strengthening of activity from the relatively disappointing pace of early 2012", and believes "the downside risks have increased, and are considerable". Mixed with the slowdown in China, this uncertainty is becoming a problematic feedback loop, restraining spending plans by corporations and families in many countries.

In this changing world, the drivers of success are also shifting. Today, it takes a global perspective to serve markets beyond one's traditional boundaries. It takes an ability to attract and retain talent. It takes a capacity for continual innovation and sustained productivity growth. In this new normal, stable and trusted institutions, sound economic and policy fundamentals, and attractive communities create national advantage.

How is Canada placed in this uncertain and changing world? Relatively speaking, Canada is in pretty good shape, and has the potential to effectively adapt to the changing world we live in. We face the future with clear strengths that will become even more important in the changing landscape. The Canadian story is worth sharing.

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Canada's relative global strengths include

- solid macroeconomic policies with low inflation;
- a diversified, sophisticated economy;
- abundant natural resources;
- a well educated labour force and an enviable standard of living;
- a sound financial system with world-class financial institutions; and
- a strong framework of public institutions and rule of law.

Canada withstood the financial crisis better than most other countries and has continued to be a leader in financial stability during the aftermath. During this time of uneven and unpredictable global recovery, Canada's fiscal situation has been a bastion of stability in a world where this is increasingly rare.

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The Canadian budget deficit on a total government basis (as a percent of GDP) is low relative to G7 countries (figure 1). Net debt as a percent of GDP for Canada in 2012 is projected to be 37.8 percent of GDP, less than half that of the US and well below all other G7 countries. This relative strength is expected to remain; the IMF expects that our net debt as a share of the economy will be 41 percent of the US by 2016 and well below the EU and UK (figure 2). And, the federal budget will be back in balance by then.

Figure 1 Annual total government surplus or deficit, various years (% of GDP)

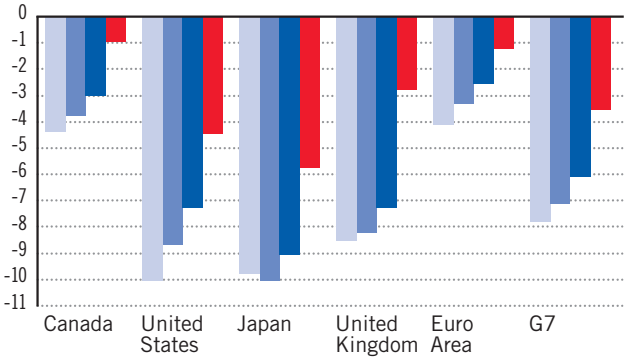
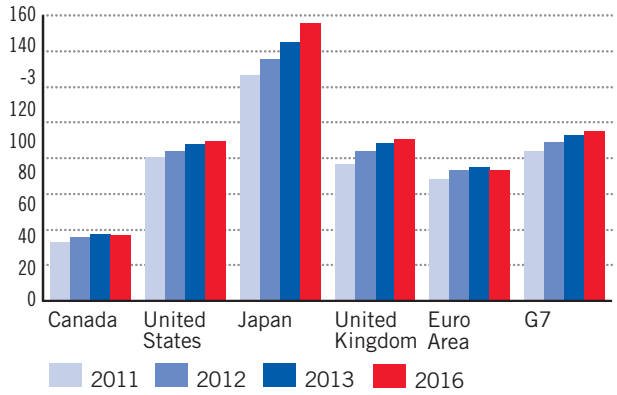
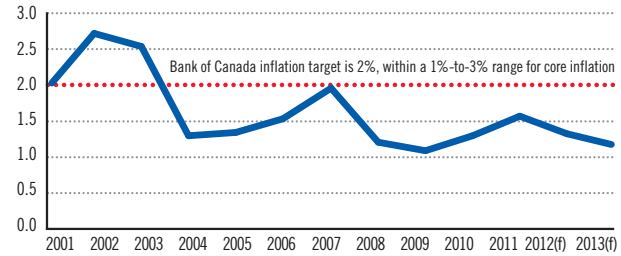


Figure 2 Total government net debt, various years (% of GDP)



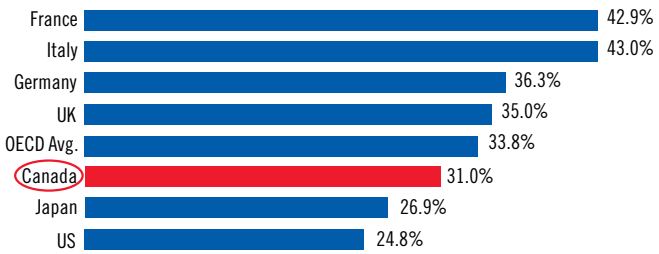
Source for figures 1 and 2: IMF World Economic Outlook (October, 2012) Note: Figures include all levels of government.

Figure 3 Core consumer price index (CPI), Canada 2001-2011 (% change from previous years)



Sources: Statistics Canada; BMO Capital Markets forecasts, October 2012.

Figure 4 Total tax revenues in selected OECD countries, 2010 (% of GDP)



Japan and OECD average tax revenue is for 2009.

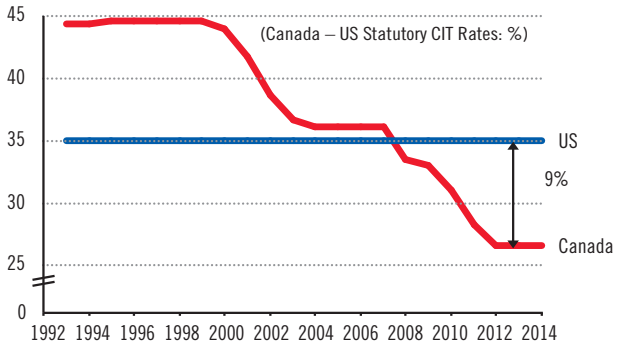
Source: OECD 2011.

Canada has kept inflation within a target range of 1 to 3 percent (a 2 percent midpoint target) on average for more than a decade (figure 3). Canada led the G7 in implementing an inflation rate target regime in 1991 and such a policy has now been adopted by over two dozen central banks around the world.

Importantly, total Canadian tax revenues (as a share of the economy) continue to be below both the OECD and G7 averages (figure 4). Lower taxes, particularly on capital and companies, improve competitiveness, growth, and job creation, and encourage investment in Canada by both Canadians and non-Canadians. Corporate statutory income tax rates (combined federal-provincial/state) are 9 percentage points lower than the US (figure 5).

Canada is a large producer of commodities that are needed by the world – forestry, agriculture, minerals, and energy products. Canada ranks in the top three countries globally for the production of potash, titanium, forestry products, uranium, aluminum, natural gas, lentils, peas, and oats (figure 6) – many of which are critical to supporting the growing demands of the burgeoning middle class in emerging markets such as India, China, and Brazil that constitute huge opportunities for Canadian industry. Canadian firms are also leaders in downstream activities including food processing, medical devices, and environmental engineering.

Figure 5 Statutory corporate tax rates in Canada and the US, 1992-2014



Sources: Canada (Combined Federal and Ontario Statutory income tax rate for General Corporate), Haver Analytics, IRS.

Figure 6 Canada's rank in global production of select forestry, agriculture, minerals, and energy products

Commodity	Ranking
Potash	1st
Titanium	1st
Lentils	1st
Peas	1st
Oats	1st
Canola	1st
Forest	2nd
Uranium	2nd
Aluminum	3rd
Natural Gas	3rd

Sources: British Geological Survey, Forest Products Association of Canada, International Energy Association, USDA, Food and Agriculture Organization of the United Nations (2009).

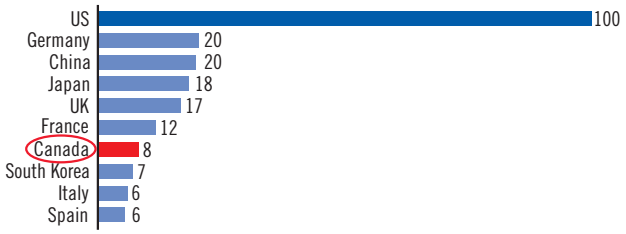
These strengths aside, we continue to have innovation and productivity challenges. On the one hand, our university research capabilities are quite strong (figure 7) and our higher education expenditure on R&D as a percentage of GDP is first among G7 nations and high relative to most OECD countries (figure 8); however, we have poor innovation performance by the business sector, where Canada ranks 20th among OECD countries in business sector R&D spending as a percentage of GDP (figure 9). Canada needs a stronger focus on innovation to support competitiveness in this changing global economy.

While Canada trades with a broad group of countries, this trade is highly concentrated in the US and Europe, both of which face a slower growth future – OECD countries account for 89 percent of our exports. The response is relatively straightforward: we need to diversify. This means shifting more of our future trade towards a strategic set of dynamic emerging economies; it means focusing more on the new middle class in these emerging economies, not solely on selling them natural resources; and it means changing what we sell towards more innovative goods and services that rely on meeting emerging consumer needs at premium prices. The good news is that this picture is changing, but slowly. Between 2002 and 2011, Canada's exports to China increased by a compound annual growth rate of 16.9 percent, though on a small base – China still accounts for only 3.8 percent of Canadian exports (figure 10).

Canada ranks first among OECD countries in the proportion of adults with a college education (24 percent) and ranks eighth in the proportion of adults with a university education (26 percent). Canadian women, in particular, are relatively highly skilled; the proportion of women in Canada with some higher education credentials (55 percent) is larger than in any other OECD country.

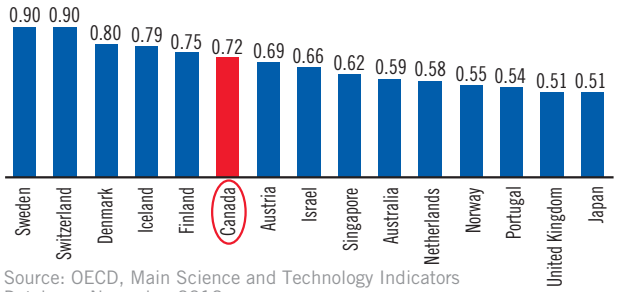
In today's competitive global economy, Canada's workforce is educated, multilingual, and multicultural, representing a true competitive advantage. Many Canadians speak multiple languages – more than 200 languages were reported in the 2011 census as a mother tongue and 5.8 million people (17.5 percent of the population) reported speaking at least two languages at home. Canada ranks first among OECD countries in the proportion of adults with a college education (24 percent) and ranks eighth in the proportion of adults with a university education (26 percent). Canadian women, in particular, are relatively highly skilled; the proportion of women in Canada with some higher education credentials (55 percent) is larger than in any other OECD country.

Figure 7 The top 10 countries in science



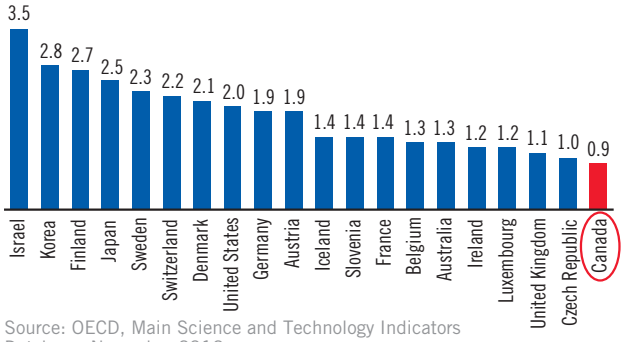
Source: Scientific American, 2012. Overall score is a 100 point scale based on scientific papers in top journals, number of patents, gross domestic expenditure on R&D and number of science and engineering doctoral degrees awarded.

Figure 8 Higher education expenditure on R&D in the top 15 OECD countries, 2010 or latest year (% of GDP)



Source: OECD, Main Science and Technology Indicators Database, November 2012.

Figure 9 Business sector R&D expenditures, OECD countries, 2010 or latest year (% of GDP)



Source: OECD, Main Science and Technology Indicators Database, November 2012.

Figure 10 Top 10 markets for Canadian exports and change over time ($ Cdn billions current)

Exports	2,011	Share of Total	CAGR 2002-2011
United States	329.8	73.7%	-0.5%
United Kingdom	18.8	4.2%	17.4%
China	16.8	3.8%	16.9%
Japan	10.7	2.4%	2.7%
Mexico	5.5	1.2%	9.5%
Korea, South	5.1	1.1%	10.9%
Netherlands	4.8	1.1%	11.7%
Germany	4.0	0.9%	3.3%
France	3.1	0.7%	4.9%
Norway	2.8	0.6%	12.4%
Total OECD Countries	**398.6**	**89.2%**	**0.54%**
All Other Countries	**48.2**	**10.8%**	**12.61%**
Total Exports	**446.8**	**100.0%**	**1.34%**

CAGR=Compound Annual Growth Rate Source: Industry Canada Trade Data Online

Canada's public education system is strong. On standardized reading, scientific, and mathematical literacy scales, Canada ranks third, second, and fifth, respectively among OECD countries – and well ahead of the US (figure 11). In the most recent QS World University Rankings, Canada has two universities in the top 20 (McGill and University of Toronto).

On standardized reading, scientific, and mathematical literacy scales, Canada ranks third, second, and fifth, respectively among OECD countries – and well ahead of the US. In the most recent QS World University Rankings, Canada has two universities in the top 20 (McGill and University of Toronto).

An important factor for attracting and retaining global talent is the community environment that a country can offer. In a recent *Economist* survey, three Canadian cities were among the world's top five most liveable cities, a list from which American cities are noticeably absent (figure 12).

As the global financial crisis so aptly demonstrated, solid financial systems matter dearly to economies. For the fifth consecutive year, the World Economic Forum has ranked Canada as having the soundest financial system in the world. The top six safest banks in North America are all Canadian (figure 13). And, safety and soundness pay off; today, five of the major Canadian banks rank among the top 10 financial institutions in North America based on market capitalization and asset size (figures 14 and 15).

In times of uncertainty, institutional strength and rule of law are important for foreign investment and partnership because they instill confidence in a country's long-term sustainable performance. The World Economic Forum ranks the quality of Canada's institutions (in their terms, "the legal and administrative framework within which individuals, firms, and

Figure 11 G7 countries ranked (out of 32 OECD countries) by student mean score on the reading, scientific, and mathematical literacy scales, 2006

Country	Ranking		
	Reading	Science	Math
Canada	3rd	2nd	5th
France	17th	19th	17th
Germany	14th	8th	14th
Italy	24th	27th	28th
Japan	12th	3rd	16th
UK	13th	9th	18th
US	32nd	21st	26th

Source: OECD Education at a Glance, 2009.

Figure 12 The world's most liveable cities, 2012

City	Country
1. Melbourne	Australia
2. Vienna	Austria
3. Vancouver	Canada
4. Toronto	Canada
5. (tie) Calgary	Canada
5. (tie) Adelaide	Australia
7. Sydney	Australia
8. Helsinki	Finland
9. Perth	Australia
10. Auckland	New Zealand

Source: *Economist* Magazine, August 2012.

Figure 13 Top 10 safest banks in North America

Bank	Country
Royal Bank of Canada (RBC)	Canada
Toronto-Dominion Bank (TD Bank)	Canada
Scotiabank (Bank of Nova Scotia)	Canada
Caisse centrale Desjardins	Canada
Bank of Montreal (BMO)	Canada
Canadian Imperial Bank of Commerce (CIBC)	Canada
BNY Mellon	United States
CoBank ACB	United States
JPMorgan Chase	United States
National Bank of Canada	Canada

Source: *Global Finance* Magazine August 16, 2012.

Figure 14 Top 10 North American banks ranked by market cap ($ US billions)

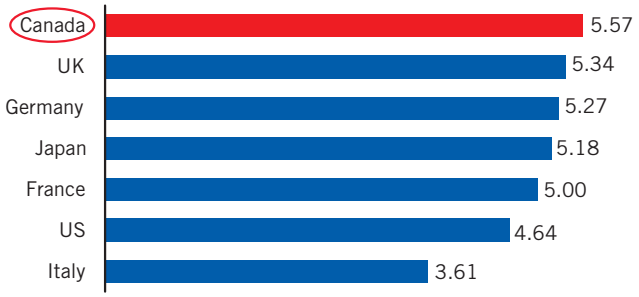
	Company	Market Cap	Country
1	Wells Fargo & Co	182.0	United States
2	JPMorgan Chase	161.9	United States
3	Citigroup Inc.	110.1	United States
4	Bank of America	102.4	United States
5	Royal Bank of Canada	84.3	Canada
6	Toronto-Dominion Bank	75.5	Canada
7	US Bancorp	64.6	United States
8	Bank of Nova Scotia	63.8	Canada
9	Bank of Montreal	38.8	Canada
10	Canadian Imperial Bank of Commerce	31.5	Canada

Figure 15 Top 10 North American banks ranked by asset size ($ US billions)

	Company	Asset Size	Country
1	JPMorgan Chase	2321	United States
2	Bank of America	2166	United States
3	Citigroup Inc.	1931	United States
4	Wells Fargo & Co	1375	United States
5	Royal Bank of Canada	824	Canada
6	Toronto-Dominion Bank	806	Canada
7	Bank of Nova Scotia	670	Canada
8	Bank of Montreal	542	Canada
9	Canadian Imperial Bank of Commerce	401	Canada
10	US Bancorp	352	United States

Source: Bloomberg, October 2012.

Figure 16 Quality of institutions ranking (global competitiveness index), 2011-12, G7 countries



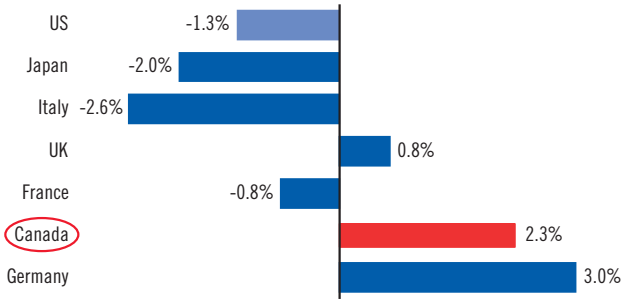
Source: World Economic Forum Global Competitive Index 2011-2012.

Figure 17 World Justice Project (WJP) Rule of Law Index Factor ranking among G7 countries and globally

Rule of Law Index Factors	Canada Ranking among G7 Countries*
Limited Government Powers	2nd (7)
Absence of Corruption	2nd (11)
Fundamental Rights	3rd (14)
Open Government	2nd (6)
Regulatory Enforcement	4th (13)
Access to Civil Justice	4th (16)
Effective Criminal Justice	2nd (10)
Average for All Factors	3rd (11)

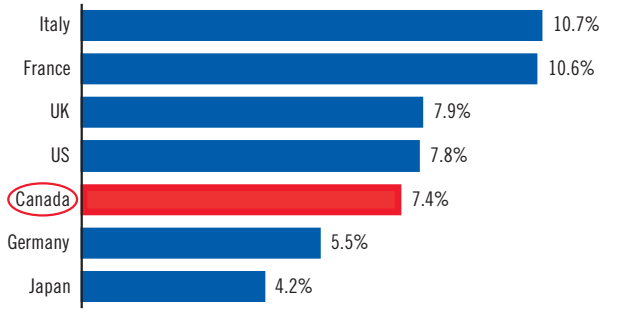
*Canadian global ranking among 66 countries shown in parenthesis.
Source: World Justice Project Rule of Law Index, 2011.

Figure 18 Change in employment, G7 countries, October 2008 - October 2012



Source: Stats Canada, October 2012.

Figure 19 Unemployment rate, G7 countries, October 2012



Source: Stats Canada, October 19, 2012.

Figure 20 Real GDP growth in G7 countries, 1999-2013

	Canada	US	Germany	France	Italy	UK	Japan
Average 1999-2008	2.9	2.5	1.6	2.0	1.2	2.5	1.3
2009	-2.8	-3.1	-5.1	-3.1	-5.5	-4.0	-5.5
2010	3.2	2.4	4.0	1.7	1.8	1.8	4.5
2011	2.4	1.8	3.1	1.7	0.4	0.8	-0.8
2012 (f)	1.9	2.2	0.9	0.1	-2.3	-0.4	2.2
2013 (f)	2.0	2.1	0.9	0.4	-0.7	1.1	1.2

Source: IMF WEO, October 2012.

governments interact to generate wealth") the highest of the G7 (figure 16). As well, Canada ranks second or third in the G7 on most World Justice Project (WJP) Rule of Law Index Factors rankings, well ahead of the US (figure 17).

These solid fundamentals are reflected in a strong overall economy. Canada has a lower unemployment rate than most G7 nations and is one of the few countries in this peer group to have experienced an increase in employment relative to pre-recession (figures 18 and 19). Growth projections for Canada by the IMF and OECD for 2012-2013 continue to be among the strongest in the G7 (figure 20).

All good, but we need to be at the forefront of the new global competitiveness. The old competitiveness was, quite simply, how do I produce a good more cheaply than my competitor? That's no longer feasible, because it is an endless race to cut costs, and unless you have enormous scale or market power, it's very tough to win. The new competitiveness is quite different: it's about our innovation capacity, our talent, and our global perspective. That perspective needs to be endlessly focused on excellence, and relentlessly worldwide in scope – understanding that your next big opportunity, competitor, partner, or new idea could come from anywhere in the world. At its heart the new competitiveness is about innovation, and the fabric that propels it – the quality of our workforce, the excellence of our researchers, the entrepreneurship of our business sector, the quality of our public servants, the dedication of our educators.

As we face a global future that will be volatile, uncertain, and profoundly changing, we can take pride in the solid strengths that comprise Canada. But we must not be complacent. The status quo is not a viable strategy in a profoundly changing world. We need to address our low productivity growth and innovation performance. We need to expand our talent pool. We need to focus on emerging markets in this new globally competitive world. We need to build upon our strengths and not rest on them.

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When Social and Economic Policy Meet… *and Both Win*

Geoff Norquay

Finance Minister Jim Flaherty pulled off the political play of the year when he unilaterally announced that Ottawa would continue to increase health care funding by 6 percent for 3 years following the expiration of the Martin Health Accord in 2014, and no less than 3 percent after that. As Geoff Norquay writes, he put the health care lobbying industry out of business. *Inside Policy* photo.

2012 will be remembered as the year when social policy met economic policy, and both came out winners. There were major federal initiatives on health care funding, pensions and employment insurance and human capital, including labour market mobility and immigration. Geoff Norquay, a close observer of social policy for nearly 30 years, looks back on a year when social and economic policy, which have historically lived "in separate houses," co-habited in an integrated policy space.

L'année 2012 aura vu la rencontre des politiques économiques et sociales tout autant que la victoire des unes et des autres. C'est ainsi qu'Ottawa a pris d'importantes initiatives en matière de financement des soins de santé, de pensions, d'assurance-emploi et de capital humain, y compris du côté de l'immigration et de la mobilité sur le marché du travail. Depuis près de 30 ans qu'il observe l'évolution des politiques sociales, Geoff Norquay revient sur cette année de coexistence et d'intégration de deux domaines historiquement distincts.

Two themes dominated social policy in Canada in 2012: steps to make social programs more economically sustainable over the long haul and the continued remaking of the Canadian labour market through the combined activities of the federal, provincial, and territorial governments. It was the kind of meeting that social and economic policy have not had for a long time in Canada, and both came off winners.

Arguably the most important social policy development of 2012 occurred just 12 days before the turn of the year. On December 19, 2011, Finance Minister Jim Flaherty stunned the health care community and a few other Canadians as well by unilaterally announcing a new funding formula for health care. After the end of the Martin Health Accord in 2013-14, the current 6 percent annual increase in the federal transfer to provinces and territories will be extended at the same level for three years. After that, the federal transfer will grow in line with the three year average of nominal GDP, but in no case less than 3 percent annually. In addition, federal increases to funding of the Canadian Social Transfer will continue to grow by 3 percent per year for the foreseeable future.

For provinces and those in the lobbyist community gearing up for a multi-year fight over the future of health care, this was dismal news. No negotiating ultimatums or "drop dead" dates would be grabbing the headlines; no rhetorical flourishes about Canada's iconic health care system would be needed, and we would all be spared impassioned arguments over the relative shares of federal and provincial spending. Minister Flaherty simply made the announcement and that was that, and the health care lobbying industry was put out of business. In the days that followed, some provinces and critics attempted to build the announcement into a story of Conservative "cuts" to health care. The problem was that the cuts were being posited against an ideal in which 6 percent federal annual increases in transfers to provinces would have been extended out into a never-ending future. And with growth in GDP forecast to grow at a rate much closer to 2 percent than 3 percent in the medium term, a 3 percent year-over-year floor for increased health care spending looked pretty good.

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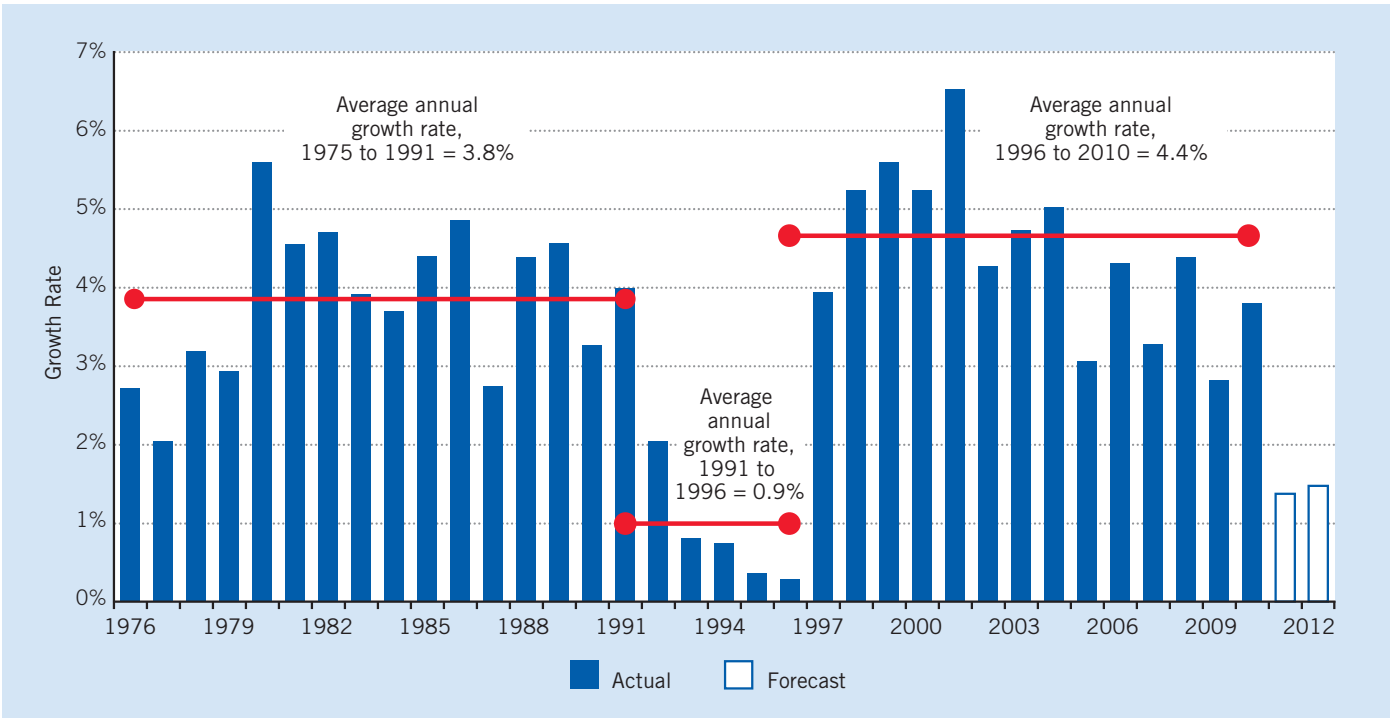
In response, the provincial and territorial Premiers established a working group on health care innovation chaired by Premiers Wall and Ghiz, which reported to the July meeting of the Council of the Federation. Their report produced an inventory of practical innovations that each province could use to "enhance patient care and improve value for taxpay-

Figure 1 Total health expenditure, annual growth rates in constant 1997 dollars, Canada, 1976-2012



Source: Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2012*.

ers." While some critics panned the report for being pedestrian, it was certainly more useful than the federal-provincial bickering over cost sharing that was averted by Flaherty's December 2011 announcement.

Highly instructive on the subject of health care was the annual report of the Canadian Institute for Health Information (CIHI) entitled *National Health Expenditure Trends, 1975 to 2012*, published in late October. The report noted that in the last decade, total health spending in Canada doubled from close to $100 billion to just more than $200 billion, due largely to increased investments by federal, provincial, and territorial governments following the period of fiscal restraint from the early to mid 1990s. This expansion had fuelled concerns among health care experts and economists that such growth rates were unsustainable, particularly with the demographic challenges anticipated as the boomer generation begins to hit 65.

By far the most striking finding in the report was that the rate of increase in annual health expenditures continued to moderate in 2012. In current dollars, total health spending per capita in Canada stood at $5659 in 2010, and forecasts for 2011 and 2012 are expected to be $5818 and $5948, amounting to respective growth rates of 2.8 percent and 2.2 percent. Moreover, while total health expenditure was 11.9 percent of GDP in 2010, it is forecast to move down to 11.7 percent in 2011 and to 11.6 percent in 2012. CIHI also found the same trends in the major components of health care spending. In 2012, hospital spending is forecast to grow by 3.1 percent, while payments to physicians will increase by 3.6 percent. These will be the lowest rates of growth since the late 1990s. Finally, the growth rate for drug spending will fall to 3.3 percent in 2012, down from 4 percent last year.

All in all, these expenditure trends suggest that the federal government was more than generous in extending the Martin Accord on health care by three years at an annual growth rate of 6 percent, to be followed by a guarantee of at least 3 percent per annum going forward. Equally important, the CIHI statistics reported at the end of the year suggest that provinces are now successfully managing down the growth rate for health care spending, and that Canada is on the path towards a more sustainable health care system. Clearly, there is much more to be accomplished in health care reform and sustainability improvements, but at least the numbers are moving in the right direction, and the provinces are becoming much more engaged.

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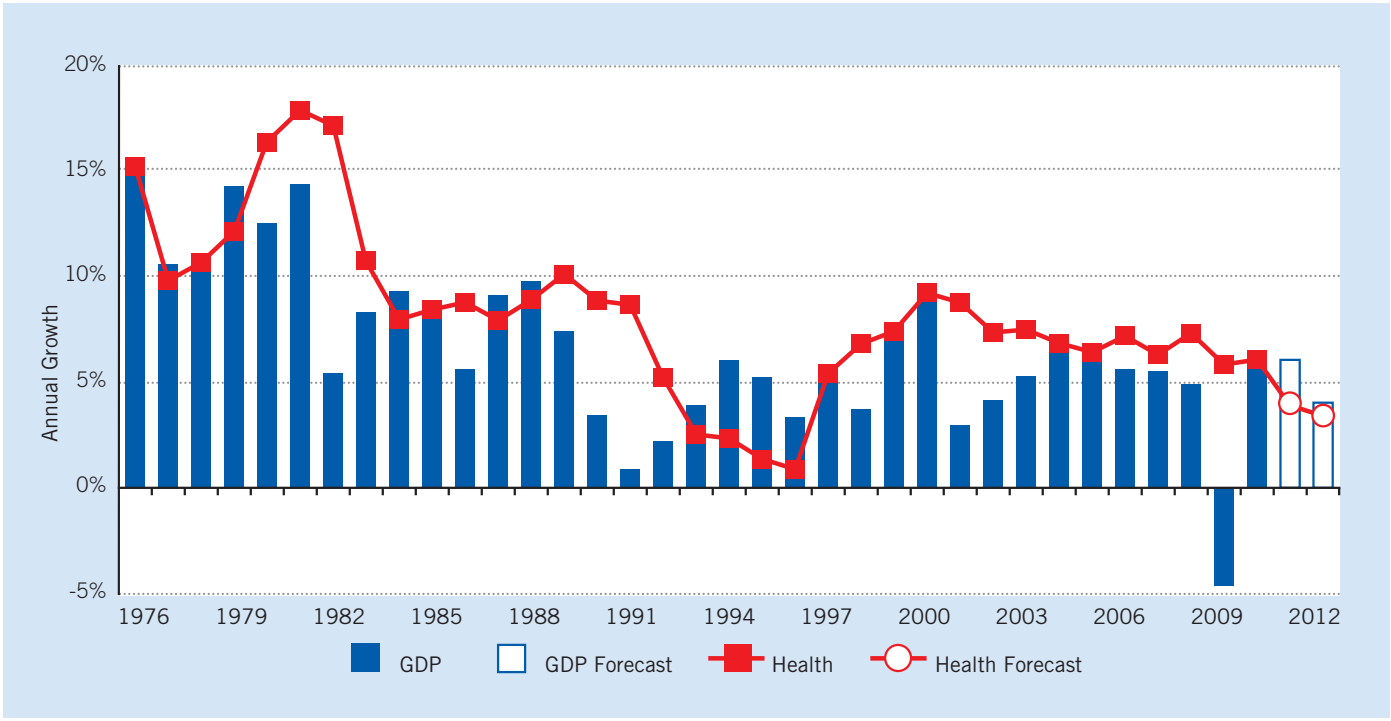
Pensions reside at the intersection of social and economic policy, and their sustainability was a major federal public policy theme in 2012. It began with the decision to limit the growth of spending within Old Age Security (OAS), the foundation of the publicly funded re-

Figure 2 Total health expenditure and nominal GDP, annual growth, Canada, 1976-2012



Source: Canadian Institute for Health Information, *National Health Expenditure Trends, 1975 to 2012.*

tirement income system. Positioned in the Prime Minister's Davos speech as one of the "transformations necessary to sustain economic growth, job creation, and prosperity now and for the next generation", the move touched off a fevered debate among economists as to whether the change was necessary to ensure sustainability or not. When the details were finally revealed, the government's initiative was an extension of the age of eligibility for old age security from 65 to 67.

The government based its argument on sustainability on the fact that the number of seniors is set to rise from 14 percent of the population in 2010 to close to 25 percent by 2030, while the working age population will barely grow at all. Today, there are four working age Canadians for every senior; by 2030, the ratio will be one-to-two. Without the changes, the government maintained, annual OAS expenditures were forecast to rise from $38 billion annually in 2011 to $108 billion in 2030, rising from the equivalent of 13 cents of every tax dollar to 21 cents.

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The government's slow start in making clear exactly what was being proposed initially caused fairly widespread concern and fear among pensioners and those close to retirement age, but once it became clear that the changes would not begin to take effect until 2023, and that there was a six year phase in period, public concerns began to abate. By the time the changes passed in the controversial omnibus budget bill in June, it appeared that most Canadians bought the government's arguments on long-term sustainability, and concluded that the Conservatives had reached a reasonable balance between pushing necessary change and allowing enough time for people to adjust.

Less clear for the government in 2012 was its success in managing another key challenge in the pension system, namely the significant number of Canadians who do not enjoy any kind of private pension coverage. According to Statistics Canada, between 1995 and 2010, the proportion of Canadian employees covered by a registered pension plan declined from 42.8 percent to 38.8 percent. Additionally, the recession that began in the fall of 2007 slashed the value of many private sector pensions as stock values plummeted. And the C.D. Howe Institute reported this year that only about 15 percent of Canadian private sector workers are covered by defined benefit pension plans.

Immigration Minister Jason Kenney is leading immigration reforms in areas such as labour markets and recognizing professional credentials of immigrants.

At the December 2010 federal-provincial-territorial finance ministers meeting, federal Minister Flaherty proposed strengthening the Canada Pension Plan to address these issues, but this initiative was vetoed by Alberta and Quebec. After further consultation with the provinces, the federal government responded with a new retirement savings vehicle in Budget 2012, the Pooled Registered Pension Plan (PRPP), and the legislation to provide for this approach to pensions was passed in June.

The idea behind PRPPs is that they would improve pension coverage and retirement savings results by reducing costs and improving investment results through the pooling of assets and administration by third parties. Since most federally regulated industries already provide pension coverage for their employees, Bill C-25 was drafted on the assumption that provincial governments will pass enabling legislation within the umbrella of the new national rules. PRPPs will be available to employees – with or without a participating employer – as well as the self-employed.

During consideration of the legislation and since its passage, there has been an active debate among experts as to the likely success of the new program, as well as its advantages and drawbacks. Detractors, most notably James Pierlot and Alexandre Laurin writing for the C.D. Howe Institute, argue that PRPPs are only a mild improvement over Registered Retirement Savings Plans (RRSPs) and that lower and middle income workers should not save for retirement in tax deferred accounts because "they will pay taxes and government benefit clawbacks on withdrawals in retirement at rates that are significantly higher than the refundable rates that apply to contributions."

Proponents of PRPPs have argued that as a low cost savings vehicle, PRPPs will create scale and have the added advantage that small employers will be absolved of the responsibility of managing pension plans since this will be done by a

financial services administrator. Both sides agree that in the longer term, the federal government must address the issue of how accumulated savings can be converted into retirement income.

The third leg of the pension sustainability theme for the government in 2012 was reform of MPs' and federal public service pensions. MPs' pensions had long been a symbolic irritant, but the issue of public service pensions was much more substantive. By accident or design, the way the government handled the two issues linked them together and ultimately meant that the two needed to be addressed as a package.

The third leg of the pension sustainability theme for the government in 2012 was reform of MPs' and federal public service pensions. MPs' pensions had long been a symbolic irritant, but the issue of public service pensions was much more substantive.

In the case of MPs' pensions, no one had ever argued that MPs did not need a generous pension plan because of the inherent interruptibility of their employment, but the issue had long since become how the financing costs should be shared between MPs and the taxpayers. The decisive set of arguments was presented by the Canadian Taxpayers Federation (CTF) in its January 2012 report. CTF argued that "The $5.80-to-$1.00 taxpayer-to-MP contribution ratio officially reported by the federal government massively understates the real contribution and payout ratios. This report details how for every $1.00 that MPs and Senators pay towards the so-called 'pension fund,' taxpayers contribute $23.30." With no one willing or able to refute those numbers, it really became a matter of time until the issue was addressed once and for all.

Source: Canadian Taxpayers Federation.

At the same time, the government faced a much more substantive challenge on the public service pension side, namely that while practically every other defined benefit pension plan in the country was based on a 50:50 cost sharing ratio between employer and employee, the federal public service pension plan was financed on a 65:35 ratio, with the employer paying the larger portion. Budget 2012 signalled that the government would begin moving to a 50:50 ratio, with a target date to achieve that ratio yet to be defined. While the MP pension issue was clearly a question of symbolism, the public service pension issue involved real money. When he addressed the issue in October, Treasury Board Minister Clement said that moving to the 50:50 ratio would save taxpayers $2.6 billion over five years.

If the government's plan was to deal with two nagging issues in a way that was linked, it worked. In the final analysis, reforming MPs' pensions became the quid pro quo for making changes to the public service pension plan. Once MPs had addressed their pensions, it became much easier to make the necessary changes to the public service pension system.

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The federal-provincial remaking of Canada's labour force management system continued in 2012. The labour market is an area of joint and overlapping jurisdiction, with the federal government managing employment insurance, the provinces in control of worker credentials, and immigration an item of shared jurisdiction under the constitution.

Canada faces a host of labour market issues. We have a declining birth rate combined with a rapidly aging population that over time will lower the labour force participation rate with resulting slowed growth in the tax base of governments.

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We have growing labour shortages in some sectors and regions, while other sectors and regions are experiencing slow growth or economic contraction and loss of jobs. We have an immigration system that until recently was overwhelmed by a waiting line approaching half a million people, while thousands of temporary workers are being admitted annually, many to work in areas of high domestic unemployment. The employment insurance system is hopelessly out of date and complex, and acts as a barrier to labour mobility within the country. And provinces control worker credentials in a way that continues to serve as an interprovincial trade barrier, not to mention leaving many highly qualified immigrants in underemployment while they wait for recognition of their foreign training.

The federal reform efforts continue to be led by HRSDC Minister Diane Finley and Citizenship and Immigration Minister Jason Kenney. Too many developments occurred in 2012 to cover in exhaustive detail here, but some key trends and initiatives bear mentioning.

In the employment insurance program, in 2013, the current 58 employment regions across the country will be reduced to nine and the value of EI benefits will be calculated using the best weeks of earnings during the qualifying period, usually 52 weeks. This change will simplify the program significantly, and reduce the existing disincentives to taking all available work prior to going on EI. It will also increase regional fairness by ensuring that similar benefits will be provided to all people living in areas with similar labour market conditions.

Speedy integration of newcomers into the Canadian labour force remains a significant challenge. While movement continues to be slow, the federal, provincial, and territorial governments are filling in the details of the Pan-Canadian Framework for the Assessment and Recognition of Foreign Qualifications, which was created in 2009. Common standards are being developed to replace the individual provincial and territorial certification systems and to provide for speedier assessment of qualifications anywhere in Canada. This year's priority is to add another six target occupations, including physicians and dentists, to the emerging system. In addition, the federal government is developing a system through which designated organizations will assess and verify the credentials of those seeking to enter Canada as Federal Skilled Workers *before* they arrive in the country.

Canada has the highest per capita level of immigration in the developed world. In 2012, the federal government continued to move Canada's immigration objectives away from their former concentration on family reunification and towards the new focus of meeting Canada's labour force requirements. As Kenney notes in his department's Annual Report to Parliament, "It is essential that Canada positions itself as a serious competitor for global talent, so that we can address labour market shortages and strengthen economic growth. To that end, our goal is to create a fast, flexible economic immigration program."

The Prime Minister weighed in decisively in a *Globe and Mail* interview in the Philippines in November, noting that Canada was in the process of moving from a "passive" immigration system without priorities to "an activist policy where we define what the immigration needs are that we want, where we actually go out and try and recruit immigrants and to the extent that we receive applications we try and prioritize them to the country's objectives." He went on to describe the need for Canada to become much more competitive in seeking newcomers: "Immigrants are going to be going to a whole lot of countries, mostly in the developed world and Canada is going to have to get out there, compete, and make sure we get the immigrants both in terms of volumes and particular attributes: skills, expertise, and investment capacity."

Against this backdrop, there were a number of key developments in 2012.

- When the Conservative government entered office six years ago, it inherited a backlog of more than 600,000 applications to immigrate to Canada in the Federal Skilled Worker Program that had arisen because of the complexity and inefficiency of the immigration system. In 2012, the federal government finally bit the bullet and collapsed the remaining backlog of 280,000 and returned their applications.

Table 1 Number of temporary foreign workers and foreign students admitted, 2010 and 2011

Category	Number Admitted in 2010	Number Admitted in 2011
Temporary Foreign Workers	179,179	190,842
International Students	96,248	98,383
Total	**274,427**	**289,225**

Source: Citizenship and Immigration Canada, *Facts and Figures 2011.*

Table 2 2013 immigration levels plan

Projected Admissions	Low	High
Federal selected economic programs, provincial/territorial nominees, family, refugees, humanitarian entrants, and permit holders	206,500	228,300
Quebec selected skilled workers	31,000	34,000
Quebec selected business	2500	2700
Total	**240,000**	**265,000**

Source: Citizenship and Immigration Canada, *Facts and Figures, 2011.*

A citizenship swearing-in ceremony for new Canadians. As Geoff Norquay writes: "Canada has the highest per capita level of immigration in the world."

- The Temporary Foreign Workers program continued to attract significant coverage and controversy in 2012. The controversy stemmed from the fact that while unemployment remained persistently high in some regions of the country, Canada admitted more than 200,000 temporary workers from outside the country to fill jobs that could not be filled by Canadians. While EI changes made during the year (the Working While on Claim Pilot Project) were designed to encourage Canadians in areas of higher unemployment to take employment, this initiative remained controversial. By early November, Finley announced a review of the Temporary Foreign Workers after the program was requested to admit 200 Chinese workers for a BC mine.
- Late in the year, Kenney signalled the government's intention to keep Canada's immigration levels steady for another year – the seventh straight – at between 240,000 and 265,000 new permanent residents for 2013. Under the Conservatives, Canada would continue to place immigration at the heart of its management of the labour force, and in its planning to accommodate the inevitable demographic shifts the country faces.

If there is one area where Canada rates a failing grade in the connection between social and economic policy, it is in the underutilization of our human resources, namely in the number of people whose skills are lost to the labour force due to barriers that prevent them from working. There are four key groups where this concern is acute: recent immigrants, Aboriginal Canadians, older workers with weak or outdated work skills, and people with disabilities. By international standards, the rate at which Canadians participate in the workforce is high, (Canada ranks sixth among OECD countries) but for these groups, we need to do much better. Bringing these groups into the labour force at higher rates of participation promises to help minimize labour shortages in future years, not to mention lowering employment insurance and social assistance costs.

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As indicated earlier, the two levels of government are finally making progress in tearing down the self-serving provincial stranglehold on credentials recognition. The government recognizes that improving the educational outcomes for Aboriginals must be improved, but in 2012, efforts to arrive at a new arrangement for the funding of Aboriginal education failed, and prospects are therefore not good for improvement in the short term. The government has been investing in older worker skills and must continue to do so. There remain significant challenges in developing and implementing new and modern approaches to bringing people with intellectual disabilities into the labour force.

In addressing social programs' sustainability and in setting out to remake the Canadian labour force, as they did in 2012, the Conservatives accomplished much in building those bridges.

Social and economic policy in Canada often live in separate houses, with the social side called upon to do little more than soften the blows created by the economic system. At the same time, the current government came to office without strong views about social policy one way or the other. As time has passed, the Conservatives have understood the linkages between social and economic policy clearly and have begun to build the necessary bridges between them. In addressing social programs' sustainability and in setting out to remake the Canadian labour force, as they did in 2012, the Conservatives accomplished much in building those bridges.

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The Quebec Question in the 21st Century

THE POWER AND LIMITS OF LANGUAGE AND IDENTITY POLITICS

Celine Cooper

To the barricades: Demonstrators clash with riot police in Montreal during unruly demonstrations against increases to university tuition fees last spring. Montreal *Gazette*.

Unable to win the ballot questions of change and corruption that were both hijacked by the upstart Coalition Avenir Québec, the Parti Québécois reverted to language and identity politics as never before in the September 4 election. It was an obvious tactic meant to consolidate their hard line base, which was courted by the socialist Québec Solidaire, viewed as a rival sovereigntist party. Playing the identity card was enough to elect a PQ minority government – barely. But as Celine Cooper writes: "The year 2012 also exposed a relatively new set of tensions between the national and emergent globalizing or post-national visions of Quebec society."

Incapable de s'imposer sur les enjeux du changement et de la corruption, tous deux confisqués par la nouvelle Coalition Avenir Québec, le Parti québécois a misé comme jamais sur les questions de langue et d'identité en vue des élections du 4 septembre dernier. Une tactique qui visait évidemment à renforcer son aile militante, courtisée par Québec Solidaire, parti socialiste et indépendantiste. Cette carte identitaire lui a permis – d'extrême justesse – de former un gouvernement minoritaire. Mais comme l'écrit Céline Cooper : « L'année 2012 a aussi révélé des tensions relativement inédites entre une vision nationale de la société québécoise et une vision postnationale tournée vers la mondialisation. »

The election of 2012 was born of one of the most dynamic and divisive social uprisings Quebec has seen since the Quiet Revolution. Over the din of *casseroles* ("casseroles"), streets undulating with the now iconic *carré rouge* (meant to symbolize student debt – that is, squarely in the red), at once seething with violence and exploding with creative energy and community solidarity, the conditions under which the writ was dropped on this election by Premier Jean Charest were extraordinary by any measure. With the adoption of the controversial Bill 78, what had begun as a small scale student strike, (or boycott, depending on your point of view) morphed into a forceful intergenerational movement that hooked into the momentum of the Arab Spring and the global Occupy movement, with their deeper struggles against corruption, the rise of neoliberalism, corporatization of education, income inequality, and uneven wealth distribution.

It was significant, then, that instead of offering up transparent, courageous leadership on issues related to the economy, corruption, education, the environment, and health care, the Parti Québécois was successful in setting and dominating the parameters of political debate with their flagship policy priorities: language, culture, identity, and sovereignty. It won them the election, but just barely.

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As Pauline Marois took to the stage of the Métropolis in Montreal to deliver her victory speech just before midnight on September 4, it was as the leader of a minority government – only the third in Quebec's history. Having won 54 out of 125 seats, only four seats separate her party from the newly minted opposition Liberals with 50. In the popular vote, the PQ won only 31.9 percent to the Liberals' 31.2 percent, while the Coalition Avenir Québec took 19 seats and 27 percent of the vote. The result was hardly a mandate for a third referendum on sovereignty, or anything else in the PQ's inventory of language and identity issues.

While Marois was addressing the room, even offering a few words in English to reassure an anglophone population shaken by the polemical political rhetoric during the campaign, she was suddenly hustled off stage by her coterie of bodyguards.

A man named Richard Henry Bain had attempted to force his way in the back door of the Métropolis, armed with a semi-

PQ leader Pauline Marois on the campaign trail for the September 4 election, in which her party won a weak minority government, with 54 seats to the Liberals' 50, and 27 for the CAQ. Montreal *Gazette.*

automatic weapon, killing 48 year old sound technician Denis Blanchette and seriously injuring David Courage before his rifle jammed.

In the chaos that ensued as Bain, wearing a blue bathrobe and black balaclava, was being led to the police cruiser he could be heard muttering, and then yelling "Les Anglais se réveillent! Les Anglais se réveillent!" (The English are waking up! The English are waking up!)

It was a chilling moment.

The turbulent path of the Parti Québécois to their tentative hold on the National Assembly is a testament to the power – and the limits – of language and identity politics in lighting the social imaginary, galvanizing a particular national enterprise, and ultimately, positioning the Quebec Question in the 21st century.

The turbulent path of the Parti Québécois to their tentative hold on the National Assembly is a testament to the power – and the limits – of language and identity politics in lighting the social imaginary, galvanizing a particular national enterprise, and ultimately, positioning the Quebec Question in the 21st century.

The issue of Quebec's place within the Canadian federation – grosso modo, the Quebec Question – has been one of the defining themes in Canadian politics for the last 50 years and more, ever since the dawn of the Quiet Revolution in 1960.

In the wake of the 2011 federal election that led to the collapse of Gilles Duceppe's Bloc Québécois and the dramatic NDP sweep of Quebec under the late Jack Layton, many assumed that sovereignty in Quebec was dead or, at the very least, on the decline. The return of the PQ to power has reanimated the Quebec Question and brought it back to the forefront of political debate.

Now that policy makers, politicians, and universities are once again paying attention, it is worth impressing that the Quebec Question – at its core – is not a purely constitutional matter. It never really has been. The issue of Quebec's relationship to Canada is, fundamentally, a complex question of society and the political, economic, and cultural conditions that shape it at any given time.

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Observers would do well to keep in mind that prior to the 1960s French Canadian identity was not defined by territorial parameters but along a tripartite set of ideological and social lines – *la foi, la race, la langue* (faith, race, and language). French Canadians were encouraged by the powerful Roman Catholic Church to coalesce around these themes under a broader banner of *survivance* in the face of perceived external dangers: Anglicization, Protestantism, and later, feminism, urbanization, modernization, and industrialization.

From the moment that processes of secularization began and French Canadian nationalism took a statist turn during the Quiet Revolution, broader constitutional struggles, claims to territory, and social tensions over competing categories of national identity and belonging have played out across the fields of language and linguistic policy. Race and religion were no longer seen as overtly palatable vectors of identity in a new civic (and not ethnic) discourse of a nation constructed, by and large, by the Parti Québécois.

Today, however, the Quebec Question is being influenced by a new set of Canadian and global dynamics that are testing the limits of language and linguistic policy as the ultimate factor in legitimizing the need for sovereign statehood. The processes of globalization, changing patterns of immigration, social media, and the rapid unregulated flow of information are challenging the idea that nations are distinct social, political, and cultural units that must necessarily be bound exclusively to one language.

Like most societies in Western democratic nation states, Quebec is forced to grapple with a new social order shaped by the multiple forces of globalization. Increasing diversity and corresponding demands for recognition or accommodation by ethnolinguistic and ethnocultural minority groups have pushed many citizens (variously situated) to think hard about what identity and belonging to the nation state really mean within the parameters of liberal democracy in the 21st century.

From the 2007 "Hérouxville Affair" in which the town council of a rural farming town adopted a five page "Code of Conduct" for newcomers that included prohibiting the lapidation of women and public prayer, to the landmark Commission on Reasonable Accommodation appointed by Charest and co-chaired by Gérard Bouchard and Charles Taylor *(Commission de consultations sur les pratiques d'accommodement reliées aux différences culturelles)*, to the hot political rhetoric that characterized the 2012 Quebec election – Quebec's struggles with these broader global challenges must be understood within the historical and political context of its complex colonial past and its internal struggles to reconcile a francophone population that self-identifies as both the majority dominant culture in Quebec and as a culture under threat within the broader, predominantly English speaking Canadian federation and larger North American continent. Robert Bourassa once called Quebec "an island of French in a sea of English."

One of the key tensions is that Quebec is facing a large demographic shift vis-à-vis its aging population and low birthrate among "old stock" francophones of French European origin (the so-called francophones *de souche*) and high rates of immigration to balance this dwindling population. The buried issue of the campaign – yet arguably the most critical issue facing Quebec as it moves forward over the next 30 or 40 years – is its aging population and the dire need to attract and retain immigrants.

Although its minority status will limit the extent to which the PQ will be able to push through their most militant policies, they have made no secret of their strategy to provoke constitutional crises with Ottawa in order to create the so-called "winning conditions" it seeks to hold a referendum on independence.

If the Quebec election of 2012 is any indication, these constitutional crises will be provoked across the terrains of language, culture, and identity. The PQ's proposed Charter of Secularism (prohibiting all religious symbolism except the crucifix from the public sphere) and extension of the Charter of the French Language (Bill 101) to CEGEPs, prohibiting francophone and allophone students from attending English language colleges, and requiring francisation certificates of businesses with more than 10 employees as opposed to more than 50 at present, seem almost strategically designed

The banging of casseroles and other kitchenware became a familiar sight and sound in Montreal neighbourhoods during the tumultuous spring of 2012. Montreal *Gazette.*

Former Premier Jean Charest stormed down the home stretch and made the election incredibly close, turning over the Quebec Liberal party in very good shape for its leadership campaign. Montreal *Gazette*.

to bump up against the Canadian Charter of Rights and Freedoms and provoke legal challenges. Though Marois offered no details in an inaugural address to the National Assembly, she later told Radio-Canada: "I said we would table a new Charter of the French Language. This new charter can consist of different parts, and could also include the CEGEPs. It's not excluded, to the contrary, it's expected."

At a press conference midway through the campaign, Marois also resurrected Bill 195 (the so-called "Identity Bill" that was tabled by the PQ and voted down in the legislature in 2007) and stated that anglophones, allophones, and Aboriginals who did not pass a state issued French test would be prohibited from running for public office or financially contributing to political parties. Marois later retreated and clarified that this would only be applied to new Quebecers who did not speak French. Regardless, this would effectively create a two tiered citizenship model where rights to participate in the political process are parsed out according to fluency in the French language.

Caricatured ideas about language and identity in Quebec may still have purchase on internal political markets, but they are dangerously out of step with the new reality. As public spaces in Quebec – including businesses, schools, health care facilities, and so forth – become increasingly globalized, the unilingual agenda at the core of the *projet de francisation* is bumping up against the reality of greater linguistic diversity, particularly in Montreal.

The stark reality is that the power of the Quebec state apparatus and its attendant institutions to maintain unilingual public spaces through language legislation such as Bill 101 is being defied by new global processes. Standardized, institutionalized ideas about the French language and its role in defining the nation, based on fixed ideas of what it means to be a Quebecer (the highly fraught *nous*), are being challenged by unregulated social media, new forms of linguistic code switching practices, cultural expression, accents, and the different kinds of bodies, values, and histories that produce and circulate them. On Facebook and Twitter, platforms that did not exist even a decade ago, people communicate in the language of their choice.

That the "French fact" in Quebec exists alongside a multilingual fact in Montreal is unsettling precisely because it challenges the way Quebecers have been taught to approach ideas about language, identity, culture, and nation over the last half century.

Perhaps as a means to neutralize (or capitalize on) these tensions, the new PQ government has merged the portfolios of international affairs, Montreal, and anglophones and put a star candidate, Jean-François Lisée, in charge. A former adviser to PQ leader Jacques Parizeau and speechwriter for Lucien Bouchard, a journalist in Washington covering international affairs, the former head of the Centre d'études et de recherches internationale (CERIUM) at the University of Montreal, and a regular contributor to *L'actualité magazine* (including playing a key role in the sensational April 2012 edition "Ici, on parle English" that raised a caricatured spectre of the future of the French language in Montreal), it is perhaps safe to assume that he is one of the key architects in crafting the new meta-nationalism of the PQ.

Lisée's driving issue has been not merely "francizing" Montreal, but keeping it a francophone majority city. Lisée has announced the government's intention to develop policy – including possible financial incentives and housing subsidies – designed to encourage more francophone families to stay on the island instead of moving to the suburbs. Lisée

has also indicated a desire to change immigration policy in order to privilege francophones (in his words, immigrants who "live in French") instead of those who have mastered it as a second language.

In a recent interview, Lisée stated that a French immigrant from Bordeaux is worth more to Quebec than an immigrant from Shanghai who speaks French as a second language. At the recent 14th summit of *la Francophonie* held in the Congo shortly after his election and appointment to the ministerial post, he referred to the battle for French in Montreal as a "combat", while chastising Gabon's President Ali Bongo for announcing his plans to follow in Rwanda's footsteps by promoting English as a second language in their efforts to promote economic partnerships and create opportunities for its people by ensuring its citizens have a working knowledge of English, the global lingua franca.

Data from the 2011 census released in late October only stirred the debate. The census showed that the percentage of mother tongue francophones on the island of Montreal declined to 48.5 percent in 2011 from 49.8 percent in 2006. However, the numbers also showed that from 2006 to 2011, the number of Montreal area residents who speak French plus another language at home increased by 37.5 per cent (90,000 people). The statistics show that across Quebec – including Montreal – an increasing number of allophones are speaking French at home, indicating that French has surpassed English as the language to which newcomers are turning.

Yet instead of focusing on the steady rise in the use of French by anglophones and allophones in Montreal, the statistics are interpreted in a way that focuses on the endangerment of francophones – the people, not the language. There is an important difference here.

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For Education Minister Pierre Duchesne, former Quebec bureau chief of Radio-Canada, this was a call to linguistic arms. "We're a nationalist government that will do everything to promote this language", he said. "It takes a Charter of the French Language that's powerful enough to protect French in North America."

If the PQ wants to succeed in these hardline linguistic endeavors as a means of legitimizing their "national project" in the 21st century, it will have to build a solid case for Quebec exceptionalism.

Globally, we are witnessing significant geopolitical reconfigurations as power migrates from the north and west to the south and east, where emerging economic and trade markets in China, India, Russia, and Brazil are overtaking Europe and the US. In Canada and around the world, language has emerged as a highly sought after resource in these new interconnected webs of social and economic markets. John Manley, former federal Liberal finance minister and now CEO of the Canadian Council of Chief Executives, recently proposed that it may be time for a national debate on how to promote new language skills – particularly in Spanish, Chinese, and Indian languages – in order to prepare upcoming generations for the changing job market and bolster Canada's place in the new global economy.

The PQ will need to justify to Quebecers how and why Quebec's exceptionalism enables it to target the linguistic diversity and multilingualism of Montreal – more than ever a resource in today's interconnected world – as a deficit rather than an asset in the name of a particular national project.

Despite these global shifts, the bi- and multilingualism of Montreal are not seen as a human resource asset, a source of comparative advantage, or an index of inclusivity, but interpreted instead by the PQ as a threat to the francophone majority. The PQ will need to justify to Quebecers how and why Quebec's exceptionalism enables it to target the linguistic diversity and multilingualism of Montreal – more than ever a resource in today's interconnected world – as a deficit rather than an asset in the name of a particular national project.

Polemics notwithstanding, the Quebec election and the *Printemps érable* that preceded it actually brought into relief a tremendous spectrum of competing visions for Quebec society and its place in Canada and in the world.

It exposed, among other things, the tensions between a range of federalist and sovereigntist positions, between the *Lucides* and the *Solidaires*, neo-liberal and Marxist socialist ideologies. The passing of the controversial Bill 78 alone provided us with a snapshot of the coterminous relationship between authoritarianism and anarchy that always seems to simmer just under the surface in Quebec.

Perhaps most poignantly for policy and political leaders who are wondering how to re-engage with the Quebec Question in the 21st century, the year 2012 also exposed a relatively new set of tensions between the national and emergent globalizing or post-national visions of Quebec society.

How the PQ chooses to navigate these tensions across the terrain of language and identity politics will speak volumes in any language.

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Race for the White House 2012

OBAMA RUNNING AGAINST HIMSELF

Gil Troy

President Barack Obama campaigning in Ohio on October 25. In the end he won Ohio and every other swing state except North Carolina, easily winning the electoral college. Shutterstock.com.

Noted presidential historian Gil Troy observes that in the 2012 US election, President Obama was running against candidate Obama, the candidate of hope and change from 2008. As Troy writes: "In 2012, Barack Obama was running against himself, haunted by the ghost – and hopes – of 2008 – which the complicated realities of his presidency could not match." As for Republican nominee Mitt Romney, his party had become a captive of the Tea Party on the right. On Election Day, the Democrats got out their vote from a more diverse America than the white America represented by Romney.

En vue de sa réélection, le président Obama de 2012 avait pour principal adversaire le candidat Obama de l'espoir et du changement de 2008, observe le spécialiste de l'histoire présidentielle américaine Gil Troy : « Barack Obama devait en 2012 triompher de lui-même, hanté qu'il était par le spectre de 2008 et des espoirs déçus par les dures réalités de son premier mandat. » Quant à Mitt Romney, il était devenu à sa droite l'otage du Tea Party. Au jour du scrutin, les démocrates ont ainsi raflé les suffrages d'une Amérique plus diversifiée que l'Amérique blanche incarnée par le candidat républicain.

In some ways, as unlikely as Barack Obama's election was in 2008, his re-election was even more unlikely. Americans were cranky. Millions were unemployed. President Obama's greatest legislative initiative, the health care reform act, was incomprehensible and unpopular. The halo that had surrounded candidate Obama somehow had disappeared when most citizens looked at President Obama, who failed to deliver the lyrical speeches of 2008 or generate the hope he had stirred back then. Moreover, during the campaign Obama was sometimes distracted, occasionally testy, and not always effective. The president had dangerously low public approval ratings for an incumbent seeking reelection. Most Americans singled out the economy as the top electoral issue and most Americans consistently expressed more faith in Obama's rival to manage the economy. The week before Election Day more than half the country thought the country was headed in the wrong direction. Yet Barack Obama, perhaps America's luckiest politician since Ronald Reagan, was blessed by a weak opponent and a great campaign team who turned out the vote effectively on Election Day while understanding how to make the election more about identity politics than actual policies.

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For most of the election campaign, Obama's problems with the electorate loomed in the background, while the focus was on the Republican Party's bloodletting, then the Republican candidate's foibles. No modern President has lost re-election without a major internal party challenge – Ronald Reagan challenged Gerald Ford in 1976, before Ford lost to Jimmy Carter, Ted Kennedy challenged Jimmy Carter in 1980, helping Reagan beat Carter, and Pat Buchanan challenged George H.W. Bush in 1992, before Bill Clinton beat Bush. A challenge saps the president, forcing a shift to the extremes where primary voters hang out, before then looking hypocritical in returning to the center seeking the swing voters who sway the general election.

That damaging dynamic was in full view as the Republican Party sought a leader. The field was undistinguished but crowded. Pizza tycoon Herman Cain's moment in the sun, despite having no political experience, was eclipsed by charges of adultery. Texas Governor Rick Perry fizzled, especially after his awkward, buffoonish "oops," when he forgot some basics of his own political platform. Former Speaker of the House Newt Gingrich once again proved to be too mercurial, too much the know-it-all, too unrefined for the American political big leagues. Congressman Ron Paul was always just a sideshow, a man with a serious libertarian ideology taking advantage of the free publicity the many rounds of televised debates and candidate showcases provided. And former senator Rick Santorum was too doctrinaire and too rigid, even for a Tea Party flavored Republican electorate. This flawed field left former Massachusetts Governor Mitt Romney standing, a decent man but a bad candidate.

Republican candidate Mitt Romney campaigning in Pennsylvania on election day, November 6. Elections are won in the middle, and he was hobbled by the Tea Party on the right. Shutterstock.com.

Romney, a Mormon whose father George Romney had been a Michigan governor and failed presidential candidate, had a legendary business career. Trained at Harvard Law School and Harvard Business School, Mitt Romney moved Bain Capital from a consulting firm to a takeover and turnaround firm, reaping hundreds of millions of dollars in profits for himself and his partners. Romney was also known for running the Salt Lake City Olympics brilliantly in 2002. But his years as Massachusetts governor were rockier. His great achievement, pushing through a state health care reform, infuriated conservatives, and Romney never seemed to bond with the Massachusetts legislators so necessary to his success – or with Massachusetts voters for that matter.

A patrician Republican plutocrat, with a lordly lifestyle and lacking a light, populist touch, became the gift that kept on giving for Democrats. Having learned from his two presidential predecessors, Bill Clinton and George W. Bush, Obama and his people Swift Boated Romney as viciously as the Bush people Swift Boated John Kerry in 2004. And they did it early with devastating TV ads during the spring and summer, as Clinton's people had done to Senator Bob Dole in 1996.

The result transformed what should have been one of Romney's great advantages – his mastery of business – into a liability. Bain Capital became an albatross burdening the Romney campaign – accused of outsourcing jobs and destroying lives. One campaign commercial had Mitt Romney singing "God Bless America" off key – interspersed with photos and captions accusing him of wiping out jobs in various corporate takeovers. Another campaign commercial essentially had a widower blaming his wife's death on the lost job and insurance benefits that followed a Romney engineered takeover.

Surprisingly, Romney and the Republicans let themselves be mugged. They did not push back aggressively or effectively. The onslaught did somehow convince Romney to allow his advisers to showcase his softer, more theological, and more generous side in the Republican Convention. By then, however, it was too little and too late.

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Characteristically, for the 2012 Republicans, as in one of those video games whose floors collapse and present new headaches each time a virtual hero masters the previous set of challenges, as they solved one problem, another, more serious one, emerged. The Republican National Convention did fill in the Romney portrait, but the monochromatic, essentially conservative, old-fashioned sensibility of the party was also apparent. It seemed that the party of Abraham Lincoln, Theodore Roosevelt, and yes, Ronald Reagan, was now more clearly the party of Barry Goldwater, Richard Nixon, and Strom Thurmond, with a too moderate, will-o-the-wisp awkward candidate at the helm.

Romney also had to contend with a media narrative that was much less forgiving of his foibles than of Barack Obama's. Obama may have disappointed, but reporters did not demonstrate much bloodlust in reporting about him. Even while sharing the general frustration and noting his shortcomings, most seemed to lack the will to destroy what they helped create in 2008. Moreover, repudiating the vicious attacks on him from the far right, such as questioning whether he was born in the US (a constitutional prerequisite to be president) and suggesting he was a Muslim, somehow insulated him from the more moderate, substantive critiques about his remoteness, his leadership, and his policies.

By contrast, reporters happily joined the Democratic pile on against Romney, treating him as a somewhat befuddled rich guy prone to gaffes. In fairness, Romney often made it easy, rudely criticizing the British preparation for the Olympics while visiting the UK – when the Olympics actually proved triumphal – and then getting caught on video dismissively speaking about "47 percent" of the country as being too dependent on entitlements and thus irrevocably opposed to his candidacy. But sometimes, the gaffe narrative distorted the Romney narrative. When Romney went to Israel and criticized Palestinian culture as lacking the democratic and creative dynamism he saw in Israel, reporters mocked it as a gaffe because it was contrary to the politically correct conventional wisdom, but exactly what Romney wished to say.

Just as Obama entered the campaign with dangerously high negatives for an incumbent, Romney entered the campaign with historically high negatives for any presidential candidate.

Just as Obama entered the campaign with dangerously high negatives for an incumbent, Romney entered the campaign with historically high negatives for any presidential candidate. Thanks to the Republican intramural fight, followed by the Democratic barrage all spring and summer, Romney had the highest disapproval ratings of any modern candidate. These two flawed candidates – and the tremendous flow of money and harsh campaign ads from independent sources, thanks to the Supreme Court's expansive, too good to be true for plutocrats *Citizens United* decision – guaranteed that this would be a nasty campaign, with not so much a true winner emerging with a clear mandate but one candidate surviving the deluge of hostility.

Nevertheless, the stakes were high – and Romney raised them by choosing Paul Ryan as a running mate. Ryan's brand of conservatism was just short of Tea Party orthodoxy. Although his Midwestern boyish charm was disarming, his vision of deep budget cuts was alarming to Democrats. Increasingly, it became clear that there was a deep philosophical rift between Democrats and Republicans, that the election was offering voters a choice between liberals who had faith in the federal government's ability to help individuals and seek communal justice versus conservatives who had more faith in the individual along with great skepticism regarding the federal government's efficiency and efficacy.

Romney had a rough spring and a tough summer. The Republican convention did show his kinder, gentler side but his campaign seemed doomed. He was unable to get his message out, unable to take advantage of the president's missteps – because he kept on providing his own. On Sep-

tember 11, an overseas disaster occurred, the kind that could have derailed Obama's re-election campaign. Islamist terrorists overran the American diplomatic compound in Benghazi, Libya. The American ambassador and three other Americans were killed. The siege lasted for seven hours but the administration did not mobilize quickly enough to see the country's representatives there. And, initially, voices in the administration treated this organized terrorist attack as a spontaneous demonstration against an ugly, offensive video mocking the prophet Muhammad that had been made in America.

Here was a moment for Romney to play Ronald Reagan and cast Obama as Jimmy Carter the apologist, the appeaser, the weakling. But Romney was too hasty, rushing to condemn the administration immediately, so that it looked like he was exploiting American deaths. The information came out slowly and it was weeks before most realized that it had been a seven hour planned siege rather than a rapid riot that grew out of control. And less than a week after this Benghazi debacle, someone, somehow, and I will not point fingers but the timing is suspicious, leaked footage secretly recorded at a Romney campaign fundraiser weeks earlier that showed Romney dismissing those who opposed him as "47 percent" of the country that is unswayable because of a new, un-American addiction to government handouts or "entitlements."

Romney was partly correct. Studies had emerged showing that 46 percent of Americans were not paying taxes and were getting some form of government check.

Romney was partly correct. Studies had emerged showing that 46 percent of Americans were not paying taxes and were getting some form of government check. But that statistic clumped together soldiers and Social Security recipients with welfare cheats, and Romney seemed to be dismissing them all as lazy, greedy, and hostile – not the way to win friends and influence people. The Romney campaign was looking moribund.

Then the debates happened. At the first of three presidential debates in October, with one vice presidential clash after the first presidential one, Americans saw a different Romney: confident, caring, and commanding. Obama seemed distant, distracted, and dismissive. Nevertheless, Romney won the debate even more than Obama lost it. The Democrats had done such a good job caricaturing Romney that when a different Romney showed up, voters warmed to him and felt somewhat snookered by the Democrats' negative campaign.

So the 2012 debates did what debates are supposed to do. They shook up the campaign in the best kind of way, forcing voters to reconcile the image of the candidates' negative campaigning and bad news had conjured up with the more direct impression they had from watching the candidates themselves. While this, too, is an artifice – the days when people imagined television as an "X-ray" of the soul are long gone – it was a welcome corrective. It is far better for a vote to be determined by direct impression than through media hearsay or a rival's hostile caricatures.

Along the way, American voters gained at least four important insights into their two leading presidential contenders. First, both were honorable, decent, talented, and smart men: fast on their feet, extraordinarily poised, able to master the difficult task of sounding intelligent yet intelligible, staying reasonably consistent, and covering a dizzying array of topics, in a fast paced, high pressure format where millions of eyes and ears are scrutinizing you constantly, when you speak, when your rival speaks, and long after the debate, too. From a human perspective, the three debates are brutal, relentless, stomach churning – and both Romney and Obama handled those challenges quite deftly.

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Americans also learned where each went when flustered or the pressure gets a little unmanageable. When stressed, Romney risked looking too flummoxed or clueless, the chastened preppy seeking his footing in a newly hostile world. Obama risked looking too angry or arrogant, the Golden Child unused to being corrected or confronted by others.

Substantively, the debates uncovered many similarities between the two that were only surprising to partisans who believed their respective party's propaganda that the two had mutually exclusive visions for America. Especially in the final foreign policy debate, Americans discovered that both mistrusted Iran, worried about the Syrian mess, were wary of China, supported Israel, wanted to end the Afghanistan war, and hoped to see the Arab Spring produce democracy. In the 1940s, Republicans and Democrats preached that partisanship should not go beyond the water's edge. While neither candidate in 2012 was quite ready to launch a bipartisan foreign policy, each could have stolen many of the other's lines, with Romney rhapsodizing about peace and Obama hanging tough.

Still, the drama in the debates came from the clashes, and they were substantive, not just stylistic. Even as what we might call the PCP – presidential convergence phenomenon

– would constrain the eventual winner as chief executives lead from the centre – Obama and Romney did disagree about some crucial fundamentals. Obama believed government could help Americans; Romney believed it often burdened them. Obama said his stimulus package and other measures righted the ship and America's economy after the 2008 crash; Romney feared the growing Obama deficit would sink Americans. Obama celebrated his health care legislation; Romney doubted it. Romney celebrated his tax cut promises and job creation plans; Obama doubted them. These differences promised fundamentally different presidencies, even though Obama also believed in free enterprise, and Romney also acknowledged government's important role in American life.

A triumphant President Obama on election night. Obama campaign photo.

Ultimately, even with so many hours of debate, many serious issues remained unaddressed. It is unfortunate that this campaign lacked substantive discussion about the growing polarization in politics and the corrupting role of money in the campaign. Each side caricatured the other as guilty without taking any responsibility for also perpetuating the problem. Still, both candidates and the debate moderators ignored other issues that the president could try addressing, such as the epidemics of family breakdown, of violence in the schools, of collapsing social structures, of the perpetually alienated, or of the temporarily demoralized. The United States of America faced serious domestic challenges beyond taxes, regulations, Medicare, and health care. Neglect would only exacerbate them.

In every presidential campaign, Americans assess the present and invest in the future, using history as their guide. In 2012, Barack Obama was running against himself, haunted by the ghost – and hopes – of 2008 – which the complicated realities of his presidency could not match. Mitt Romney was haunted by the ghost – and successes – of Ronald Reagan, unable to measure up to the governor who unseated a Democratic incumbent during times of economic difficulty by displaying great charm and moderating his once harsh conservative image.

In every presidential campaign, Americans assess the present and invest in the future, using history as their guide. In 2012, Barack Obama was running against himself, haunted by the ghost – and hopes – of 2008 – which the complicated realities of his presidency could not match.

The debates, ultimately, gave both Romney and Obama opportunities to shine – as Obama came back in the second and third debates. And the debates reminded us all that these presidential campaigns are not settled affairs, not done deals. History happens, and democracy does what democracy should do, encouraging leader-to-led discourse and empowering the people.

Even as the polls showed that those surveyed considered Romney the winner of the first debate by landslide proportions, the vice presidential debate was more of a tie. Democrats who went in primed to like Biden applauded his slash and burn aggressiveness. Republicans who went in primed to like Ryan applauded his wonky Boy Scout earnestness. In the end, this vice presidential debate, like most, had little impact on the electoral outcome. But the big question this debate raised was one of debating dignity. Biden's performance – and he was clearly performing – included smirking, scoffing, chuckling, and guffawing, although he mostly skipped the sighing which hurt Al Gore's standing in 2000 when he debated George W. Bush.

The quest for dignity is as old as the republic. It reflected America's more elitist and character oriented republican roots, as well as the monarchical dimensions involved in executive leadership. Originally, the candidate's virtue as expressed through his dignity was so cherished it was considered undignified for presidential candidates to run; they stood for election, as George Washington did. But the waves of democracy that transformed America also changed campaigning protocols, launching candidates into the hurly burly of the political process.

Toward the end of the campaign, the Obama campaign emphasized wedge identity issues over defining policy issues,

seeking to mobilize its coalition of women, African Americans, Latinos, gays, young voters, and particularly educated voters. The Romney campaign did not push back effectively. Suddenly, four decades after the Supreme Court in *Roe v. Wade* legalized abortion, long after most Americans settled on a consensus about this difficult, heartbreaking issue – that abortions should be safe, legal, and rare – partisans started claiming the abortion question was still in play.

Responding to some of the broadest, least likely to be implemented rhetoric of Romney and Ryan, the *New York Times* ran a lead editorial in mid October darkly warning that "A Romney-Ryan victory could result in recriminalizing abortion in much of America." Such grandstanding from both sides ignored the fact that five Republican presidents since 1973 failed to outlaw abortion.

Abortion, therefore, was the ultimate blue and red herring. The abortion issue served more as a signifier, as a secret decoder ring, bringing citizens into one faction or the other in the great American political divide, than as a serious political issue. And in a cranky, divided, intemperate culture where shades of grey were accepted as trashy literature but not in politics, the abortion blue-red herring did its dirty work as the supersized wedge issue, obscuring the consensus, rankling extremists, and poisoning the political atmosphere.

Ultimately, Election Day taught those who had not already grasped this essential lesson that Americans were now living in Obamerica. Obamerica is multiracial, not just white. It has many religions and many secularists, not just Protestants. It has many different forms of living arrangements, not just the mom, the dad, 2.2 kids, the white picket fence, and the suburban two car garage. It is multicultural, multiethnic, less monolithic, and more diverse sociologically, ideologically, and politically.

Had Obama lost, his election could have been dismissed as an Obamanomaly, a fluke – or, more accurately, a premature harbinger of change. But the new America that Obama represents and leads was best illustrated in the competing optics of the two political party conventions last summer. The Republican convention looked like a Midwestern church social, overwhelmingly white, square, and traditional. The Democratic convention looked like an urban club scene, multiracial, hip, and progressive. And the numbers on Election Day confirmed this – Obama's army of African Americans, Hispanic Americans, young Americans, well educated Americans, and women triumphed over Romney's white bread coalition of the well bred – and their wannabes.

Just as the classic American political movie *The Candidate* ends with Robert Redford's unexpected electoral victory and the unnerving question "What do we do now?" Obama has to figure out "What do we do now?" Part of the answer is watch and wait. There is this phenomenon called the business cycle. Had Obama been forcibly retired, the 7.9 percent unemployment rate would have defined him. Instead, a slim majority of Americans gave him four more years to watch the markets continue to recover, and for Americans to retool, revive, and return to prosperity.

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But passivity is not an option in 2012; waiting is not enough. The first major challenge Obama must face is the Republicans' enduring enmity. The man who promised to change Washington and heal the nation cannot continue to be proof that Washington is gridlocked and the nation hopelessly divided. It is not just this looming "fiscal cliff" of nearly $500 billion in automatic cuts and tax hikes to fight the deficit. Obama's legacy will be shaped by his ability to live up to his 2008 vow to create a new kind of politics. Blaming Republican obstructionism for his failure is not good enough.

In addition to fording the gap with Republicans and not falling off the economic cliff, Obama has to worry about the unemployment pit, the health care fog, and the Middle East morass. Too many Americans are unemployed and need to rejoin the work force. Obamacare remains too complex, and too undefined – now the president has a chance to oversee its implementation. And the messes in Iran, Syria, Libya – and who knows where next – still loom large.

Finally, Obama has to worry about the second term curse. Second term presidents quickly become lame ducks – and have recently run into real trouble: Nixon with the Watergate hearings, Reagan with Iran-Contra, Clinton with the Lewinsky scandal, and George W. Bush with the great crash. Presidential power starts ebbing as inauguration day ends. Obama has to figure out how to show the people that he is in charge, that he has a vision, and that he can do the difficult, complex, but critical job, his America, Obamerica, just rehired him to do.

Four years earlier, the achievement was in the election itself, the election of an African American who described himself as a skinny guy with a funny name. This time around, the achievement is going to have to be in the achievements.

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Canada's Virtuous Cycle and What the United States Can Learn from It

Paul Martin

Former Prime Minister Paul Martin tells a top Washington audience, convened by MLI and AEI, how Canada balanced its books, and suggests lessons for the United States. Photo courtesy AEI.

In the 1990s, Canada was on the brink of a fiscal crisis, with budget deficits piling debt onto both the federal and provincial governments. On September 18, 2012, the Macdonald-Laurier Institute and the American Enterprise Institute (AEI) co-hosted an event at AEI in Washington where some of the major players in Canada's fiscal transformation discussed how the country's successful taming of its debt can serve as a model for the US today. Former Prime Minister Paul Martin spoke about the need for a global perspective when considering government finances.

Aux prises avec des déficits budgétaires qui gonflaient la dette du pays et de ses provinces, le Canada a frôlé dans les années 1990 une grave crise financière. Le 18 septembre dernier, l'Institut Macdonald-Laurier et le American Enterprise Institute (AEI) ont invité certains acteurs clés de l'assainissement des finances canadiennes à discuter de l'intérêt pour les États-Unis de s'inspirer des mesures qui ont permis d'enrayer la dette du pays. Lors de cet événement tenu au siège de l'AEI de Washington, l'ancien premier ministre Paul Martin a fait valoir la nécessité d'une perspective internationale en matière de finances nationales.

As a backdrop to the deficit and debt issues facing the United States, I was asked to discuss Canada's experience in the 1990s when, as you now know, as a country we embarked on a bit of balance sheet cleansing ourselves. I'd like to do it in a context that draws the parallels between the United States and the eurozone as they each struggle to rise to their respective deficit challenges.

I want to do this for two reasons. First, the United States and the eurozone are the world's two most important markets, and the failure in each case of the one to act impacts directly on the other and, indeed, on the global economy in its entirety.

And second, in both instances, the failure to act, the primary obstacle to their taking action lies not in the economic realm but in the political realm. In the United States, I don't have to tell you, it is the polarization of Congress. And in the eurozone, it is the failure to rectify the mistake that was made at its origin. That is to say the failure to recognize that the economic institutions that are required to run a monetary union are the same institutions that are required to run a country. And they, until they accept that, are not going to be able to deal with, in my opinion, their fundamental issues.

In short, you cannot deal with a crippling deficit unless you have a governing body that can first, act; and second, one that can convince its people that when it does act, it will do it in the interest of all, not simply in the interest of a select few.

In short, you cannot deal with a crippling deficit unless you have a governing body that can first, act; and second, one that can convince its people that when it does act, it will do it in the interest of all, not simply in the interest of a select few. Now this is not to say that hard economic choices don't have to be made. In 1993, when our government took office, Canada was in a debt spiral. Forty five percent of that debt was owed to foreigners who were asking for higher and higher tribute.

As a result, my biggest fear as a brand new finance minister was that I was convinced that a financial crisis would occur somewhere in the world before we could act, and that the contagion that would follow would send our interest rates through the roof, pushing Canada over the tipping point.

Now, our question in terms of whether you cut taxes or whether in fact you cut spending, we did not cut taxes primarily because we were worried about the reactions from the market because our single biggest fear was that huge chunk of debt and the effect of compound interest which is something that the United States up until now has not had to deal with. Unfortunately, I think it's coming faster than you think.

In terms of a financial crisis driving us offside we came very close. The Asian crisis that occurred in 1997 clearly would have done us in like Greece. Fortunately, two years earlier than this, we had acted. On February 27, 1995, that particular budget was tabled in the House of Commons. Transfers to the provinces for health care and education were reduced.

Public sector employment was cut by 20 percent, and the vast majority of that public sector employment went out the door the next day. Historic subsidies for transportation and agriculture were eliminated. Spending in the Department of Industry was cut by 65 percent. No department of

	Canada: General Government Financial Balances as % of GDP (%)	United States: General Government Financial Balances as % of GDP (%)	Canada: General Government Net Financial Liabilities as % of GDP (%)	United States: General Government Net Financial Liabilities as % of GDP (%)
1980	-4.1	-2.7	14.5	25.6
1981	-2.8	-2.4	13.5	25.4
1982	-7.0	-5.0	19.1	29.5
1983	-8.2	-5.7	25.6	33.0
1984	-7.8	-4.9	29.6	34.2
1985	-8.6	-5.1	35.3	37.3
1986	-7.1	-5.3	39.6	40.8
1987	-5.4	-4.4	39.2	43.0
1988	-4.3	-3.7	38.1	44.1
1989	-4.6	-3.3	41.1	44.2
1990	-5.8	-4.3	43.7	45.4
1991	-8.4	-5.0	50.5	49.1
1992	-9.1	-5.9	59.1	52.5
1993	-8.7	-5.1	64.2	54.9
1994	-6.7	-3.7	67.9	54.4
1995	-5.3	-3.3	70.7	53.8
1996	-2.8	-2.3	70.0	51.9
1997	0.2	-0.9	64.7	48.8
1998	0.1	0.3	60.8	44.9
1999	1.3	0.7	55.8	40.2
2000	3.0	1.5	46.2	35.3
2001	0.7	-0.6	44.3	34.6
2002	-0.1	-4.0	42.6	37.2
2003	-0.1	-5.0	38.7	40.5
2004	0.9	-4.4	35.2	48.9
2005	1.5	-3.3	31.0	49.0
2006	1.6	-2.2	26.3	48.4
2007	1.4	-2.9	22.9	48.0
2008	-0.4	-6.6	22.6	53.6
2009	-4.9	-11.6	28.3	65.7
2010	-5.6	-10.7	30.4	72.9
2011	-4.5	-9.7	33.3	80.1

Source: BMO Financial Group.

government escaped unscathed. These were massive cuts. They were far greater than anything that Canada had ever seen, such that by the end of the process, the federal government's expenditures as a percentage of gross domestic product were lower than they had been at any time in the previous 50 years.

The result? Well, four years later, Canada's deficit was history. Our debt-to-GDP ratio was dropping like a stone, and we began reinvesting in areas like health care and education that had taken a frontal hit. Not only that, we started building surpluses of such size that I began to be criticized for those surpluses, much as my predecessors had been criticized for their deficits. I did not lose much sleep over that.

Doing what had to be done was one thing. Ensuring Canadians were on side, that was another, and that was the key to our success.

Doing what had to be done was one thing. Ensuring Canadians were on side, that was another, and that was the key to our success.

Let's not kid ourselves. Cuts in government expenditures hurt people, and they will never be accepted if the only argument for them is to make the markets happy. If deficit reduction is to be successful, it must be seen by everyday people as being essential to their well-being, essential to them and the things that are important in their daily lives.

Now what this is will vary from country to country. In the United States, I suspect it would vary from state to state. In our case, it was that the servicing of excessive public debt was leading to the gutting of the social programs that Canadians relied on. An in-depth frontal attack on all government spending without any sacred cows, including those things that we were trying to protect – in fact beginning with those things we were trying protect – was the only way of lifting the burden of compound interest which at that time translated into 36 cents out of every dollar going to debt service. This was the government's largest single expenditure, larger than either health care or education.

The second thing we did was to recognize the importance of openness and transparency and running the debate over the scope of our expenditure cuts. Now here we took the debate head on. As early as we could, and for well over a year before the budget was to be presented, we embarked on an unprecedented process of public consultation.

You will understand that not only were there tough choices to be made but that there were no perfect answers, nor did the benefits of our reach-out end with budget day.

The problem when a government has to do something very tough in the public good occurs not only when the government announces its cuts. It reoccurs over time as those cuts begin to make themselves felt. In other words, getting the public on side initially is one thing; keeping them there is quite another.

While this was important for Canada 15 years ago, I believe it will be even more important for tomorrow's governments in the eurozone and in the United States. This is because the balance sheet issues in both jurisdictions will take much longer to resolve than what they were in our case. First, because the global economy was in better shape when we acted, and second, because the deleveraging in both the eurozone and the United States that is going to be required if you're going to deal with your deficit will continue to take its toll on economic growth and job creation going ahead. It is for this reason that it is so important for a government to be open with its people from the very outset.

The problem is that if you go out there and you can tell the people that this deleveraging isn't going to affect job creation, or if you tell the people that they're going to have a certain level of growth and you don't deliver, you will lose that battle the day you make those commitments. In this context, soon after taking office in November 1993, I recognized an excess of optimism about future revenue streams in democracies, and this is where governments make the mistake. They say this is what our revenues will be. It usually becomes a cover for government inertia, for governments not acting. But even worse, it can become a minimizing of the efforts of people. My view is that if you're going to do this, you'd better tell them the truth from the beginning.

Let's not kid ourselves. Cuts in government expenditures hurt people, and they will never be accepted if the only argument for them is to make the markets happy.

As a result of this, in order to make this happen, we commissioned an independent set of projections, by independent economists. Then we took the lowest end of their projections to calculate the government's revenues. After that, we added a further reduction for prudence, and we added a further reduction for a contingency reserve. When we did this, it immediately established the credibility of our projections. Even more importantly, it meant that when the budget was tabled a year later, no one said that our expenditure cuts were insufficient to do the job. This wasn't exactly shock and awe but I can tell you, it was the next best thing.

So you can say, why was all this important? Why are you taking us through this? It's important because at no time when we acted did we face the same kind of criticism that is being leveled by the Congressional Budget Office of both political parties in the United States to the effect that they are looking at the world through rose-colored glasses. Nor did we face the debilitating challenge from the markets that has

burdened so much of the debate in Europe and has led to steadily rising interest rates in Spain and Italy.

> *At no time when we acted did we face the same kind of criticism that is being leveled by the Congressional Budget Office of both political parties in the United States.*

And understand our biggest problem was interest rates on that level of debt. It's not your problem yet. The question is, when will it be?

But when you make economic projections of any kind, it's inevitable that they're going to be wrong. They're going to be off-base over time. The problem is that economic commentators make their projections and then they'll revise them, and they'll revise them to their heart's content without any shame.

But for governments, the consequences are more serious. If government wants to maintain public support, while recognizing that inevitably its projections are going to be wrong, what's important is to make sure that its projections are wrong the right way. The reason for this is an initiative such as deficit reducing budgets, firewalls, sovereign bailouts, or campaign promises. If your projections fall short of the mark, they become the breeding ground among your population of doubt, of dashed hopes and expectations. Ultimately, that is the kind of stuff upon which failure feeds. Now you only have to take a look at southern Europe today to understand what I mean.

> *Even more to the point, a government's best opportunity at deficit reduction comes in its first attempt. If it has to go back to the well a second time, even worse, if it has to go back to the well a third time, not only public skepticism but public despair will take over. That's when you get riots in the streets.*

A government's best opportunity at deficit reduction comes in its first attempt. If it has to go back to the well a second time, even worse, if it has to go back to the well a third time, not only public skepticism but public despair will take over. That's when you get riots in the streets.

So the question really is how many false starts, how many unfulfilled expectations can you expect people to absorb? This is a reality that I would suggest to you that the next administration and the next Congress, whether it's Republican or Democrat, will have to address early on.

Now at this point in the exercise, I suppose you're saying to yourself, this is all well and good, but what does it have to do with us? After all, the Canadian parliamentary system doesn't have the plethora of checks and balances that freezes decision making either in the United States or in the eurozone.

Well, to be honest, I'm not so sure that's where your real problem lies. Despite all the sound and fury, the truth is neither Europe nor the United States has the deficit battle engaged in a way that it could be won. The Europeans, they are so focused on austerity that they have failed to recognize that economic growth is a crucial component of deficit reduction. In other words, cutting spending and cutting deficits are not always synonymous.

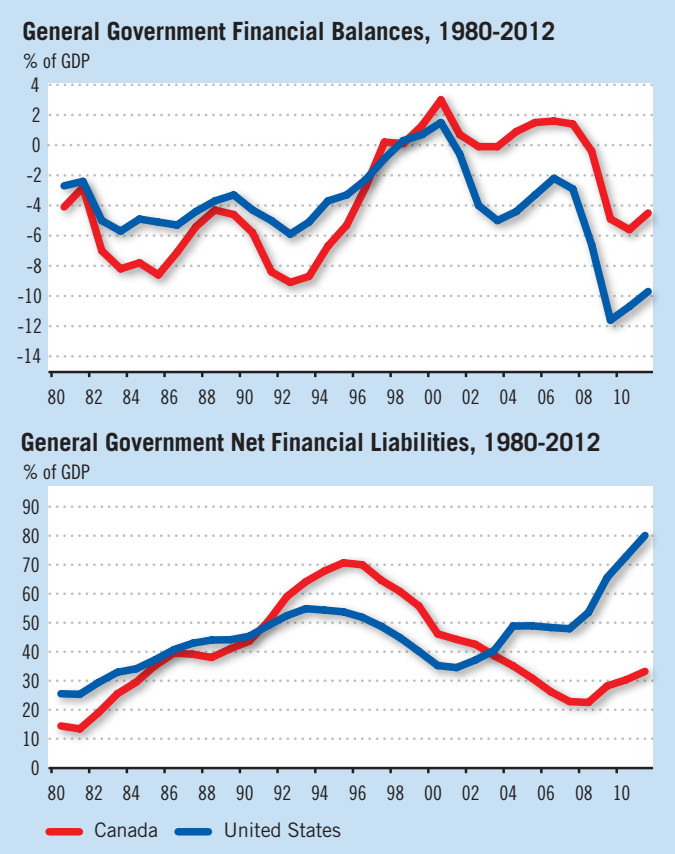
The US, on the other hand, seems to feel out of control of interest rates and that their consequences à la Spain or Italy will never be a problem for the world's most prominent safe haven. That may be true today, but given that the economic Armageddon of potential threats like the fiscal cliff are there, I would suggest to you that even for the US there is a tipping point. For too long the political class in both Europe and the US has relied on their central banks to do the job for them. In both cases, ultimately, the European Central Bank and the Fed will run out of gas.

Economic commentators wonder why the private sector, with its huge hoards of cash, is not investing and creating jobs. Well, I think the answer is a lack of confidence. It's the lack of confidence born of the fear that hiding behind the veil of monetary easing, elected governments will forever fail to find the right balance between short-term stimulus and medium-term structural change as the foundation for long-term growth. The fact is that the ratios to be found on the US balance sheet are much worse than those to be found in the combined European balance sheet. These are serious numbers. Yet the so-called deficit debate in the United States is not about the deficit at all. It's about winners and losers.

There could be no better example of this than the fight, the US debate over taxes. I understand the need to cut taxes. We brought in the largest tax cuts in Canadian history, but we did so *only after* we had eliminated the deficit. To be blunt, in my opinion, any other recipe is a recipe for failure. It simply builds up a debt burden that the next generation will have to shoulder by increasing their taxes.

Truth be told, the debate in the US is not about whether there should be higher taxes. It's simply about which generation is going to pay them. The hard truth is, focusing on which spending is going to be cut and how the remainder is to be paid for is going to have be faced before time runs out. There has to be a way of engaging the American people without the bitter and counterproductive partisanship that dominates Congress.

Three years ago, the Simpson-Bowles Commission would have provided the focus for a national debate that could have led to the kind of compromise in which successful deficit reduction programs must be based. Now the problem was, immediately upon deciding that certain recommendations



Source: BMO Financial Group.

didn't appeal to them, neither the administration nor Congress dealt with Simpson-Bowles seriously. In short, they ignored its potential as a means of reaching out to the American people and forging a compromise.

Clearly, despite this, robust consideration has to be given again in the United States to bringing in a consultative commission in some pragmatic form or other. You will forgive me for saying so, but surely the American people deserve the right to be brought into a bipartisan debate based not on ideology but on the arithmetic. For at some point, reality has to set in. The deficit and debt are realities which Admiral Mike Mullen, the former chairman of the Joint Chiefs of Staff, once described as the United States' greatest security threat.

My final comment is not so much in the need for governments to take action domestically, what you do domestically when you're faced with balance sheet stress. Then there's the need to take proactive action globally as well. That's why I've included Europe in this conversation because I do not believe that Europe is unrelated to your problems, or indeed to our problems, or as we now know, China's problems.

Had Canada not acted when it did, the contagion from the Asian financial crisis would have done us in. It was because of this on the present threat of contagion that during the Asian crisis, I approached my US counterpart, Larry Summers, to suggest that the G7 finance ministers could no longer reflect the global reality and that the major emerging economies had to be at the table. He agreed. I approached the other countries to be involved, and the G20 Finance Ministers was born.

Now I raise this here because while all countries have to get their own finances in order, it is no longer sufficient to stop there, which is why I perhaps, somewhat impolitely, talk to you about yours. On the other hand, having dealt with US governments for many years, they've never had any hesitation talking to us about ours.

In an increasingly integrated global economy, like it or not, we are now our neighbour's keeper, for when they misbehave, we all pay the penalty. It is not only the United States that felt the pain of subprime and it's not only the United States that felt the failure of Lehman Brothers. It's not only the eurozone that has suffered from the failure of its governments to confront the incestuous relationship between bank debt and sovereign debt. It's not only the UK that has felt the ricochet from LIBOR. In each case, it is all of us.

What this really means is that while we may work alone in ensuring national balance sheet integrity, we must work together, much better than we have to date, to strengthen the great multilateral institutions designed to make globalization work: the IMF, the WTO, the Financial Stability Board. The only body with the capacity to do this at the present time is the G20. Despite its preoccupation or the preoccupation of its members with their problems at home, the member nations now have to start giving the G20 much greater direction than they have to date.

Now for those of you who disagree, I will only ask you to consider one question: What will happen if the Financial Stability Board is frustrated in its efforts to flesh out the meaning of banks or financial institutions that are too big to fail? Ten years from now, the huge Chinese bank – you've just seen one Chinese bank, the second largest in the world – in fact has said that it's got $15 billion to buy a major European bank. They already had bought one bank in the US as I understand. What's going to happen if 10 years from now, the huge Chinese banks, which by then will be penetrating Western markets on an unprecedented basis, plunge into a banking crisis of their own, while the US and Europe are still busily rebuilding their balance sheets?

Well, I'll tell you what would happen. The whole edifice of global bank regulation that is being so tenuously constructed at the present time would come tumbling down around our ears, and deficit reduction would be the least of our problems. In short, while I have spent most of what appears to be too long a period of time talking about how we must each fix our own balance sheets, this is but the beginning of a much longer road that lies ahead.

Paul Martin was Canada's 21st prime minister from 2003 to 2006 and Canada's minister of Finance from 1993 to 2002. He also served as the Member of Parliament for LaSalle-Émard from 1988 to 2008. He was the founding chair of the G20 Finance Ministers. Adapted from a speech at the MLI-AEI symposium on deficits, debt, and lessons the US could take from the Canadian experience.

MLI's Great Canadian Debate on the War of 1812

Historian Michael Bliss (centre) moderates The Great Canadian Debate on the War of 1812, between Jeffrey Simpson (right), who argued for the affirmative that it had been "overhyped", and J.L. Granatstein, who argued for the No. MLI photo.

On November 7, in a debate hosted by the Macdonald-Laurier Institute, sponsored by the *Ottawa Citizen* and moderated by historian Michael Bliss, the *Globe and Mail's* Jeffrey Simpson and Canadian historian J.L. Granatstein debated the resolution, "The War of 1812 has been overhyped."

À l'occasion d'un débat organisé par l'Institut Macdonald-Laurier, parrainé par le *Ottawa Citizen* et animé par l'historien Michael Bliss, le journaliste Jeffrey Simpson du *Globe and Mail* et l'historien canadien J.L. Granatstein ont discuté le 7 novembre dernier de l'hypothèse d'une « surestimation de l'importance donnée à la guerre de 1812 ».

HAS THE WAR OF 1812 BEEN OVERHYPED? YES

Jeffrey Simpson

History, to be properly understood, should be studied in the round. Historical narratives are seldom a straight line between two points. Lessons are often complicated, even contradictory. Unintended consequences can abound.

Governments, however, have a straightforward agenda: to be re-elected by appealing to particular segments of the electorate. So they are sometimes tempted, as the Harper government has been, to seize not history with all its complexities, but fragments of history and to build a narrative around them consistent with the one the government wishes to sell to the country for its own political purposes.

So it has been with the War of 1812, a mostly forgotten war, except by a handful of professional historians on both sides of the Canada-US border, and by handfuls of people who live near battlegrounds of yore.

To the Harper government, however, the War of 1812 blended two political objectives: to revivify admiration for things military in Canada and to accentuate the British connection in Canada. Hence, the decision to spend $40 million – at

a time of cutbacks across the government, including for almost all other programs helping Canadians (and foreigners) appreciate the country's culture and history – to hype this 200 year old conflict and to rescue it from the relative obscurity in which it had nestled for so long.

A government keen on all aspects of Canadian history could have highlighted other anniversaries in 2012 that spoke much more directly to Canadians than the War of 1812. This is the 50th anniversary of the introduction of medicare in Saskatchewan, and the 30th anniversary of the Canadian Charter of Rights and Freedoms. Poll after poll, seeking to discover which symbols are most important for Canadians, reveal the top two choices to be medicare and the Charter.

A government keen on all aspects of Canadian history could have highlighted other anniversaries in 2012 that spoke much more directly to Canadians than the War of 1812. This is the 50th anniversary of the introduction of medicare in Saskatchewan, and the 30th anniversary of the Canadian Charter of Rights and Freedoms.

A highly partisan government determined to use history for its own political purposes would never contemplate banners, stamps, and television advertisements hailing T.C. Douglas or Pierre Trudeau, for these were of the other political parties. So it has to settle for General Isaac Brock and Laura Secord and Tecumseh and their roles in the potted version of the War of 1812 presented by the assortment of government sponsored programs designed to pump up our collective chests about battles fought long ago in a war that ended in a draw.

To suggest, as Prime Minister Stephen Harper did recently, that the Canadian military's roots lay in this war was a complete rewriting of history, such as we might expect but do not deserve.

There was no Canadian army, although there were Canadian volunteers serving with the British, for the Canadian colonies were governed by the British. Especially in what is now Ontario, plenty of people wanted the Americans to win the war and gave aid and comfort to the invaders when they could. For them, newcomers from the United States lured north by the promise of free land, the British were haughty, arrogant, and anti-democratic.

On the US side, war provoked political combat between populist Republicans who favoured it and Federalists who denounced it.

One supposes the only argument in favour of saying the War of 1812 has not been overhyped is that by frustrating the Americans, Canada was saved as a sovereign nation. But of course there was no such thing as a sovereign Canadian nation at the time of the war.

A packed and lively audience at the Canadian War Museum took part in a Q&A following the Great Canadian Debate on the War of 1812. MLI photo.

We should study the War of 1812 largely as a testament to folly and we should commemorate it, if we must, not as a military triumph but as a salute to 200 years of ensuing peace between two great countries. What we should not do, in the interests of true history, is allow a government – any government – to use and abuse history for its own political purposes, as this government is doing with this war.

Jeffrey Simpson is a national affairs columnist for the Globe and Mail.

HAS THE WAR OF 1812 BEEN OVERHYPED? NO

J.L. Granatstein

Jeffrey Simpson is one of Canada's most prominent columnists, but sometimes even the best of pundits get it wrong. Simpson argued in October last year that the War of 1812 was a stupid war marked by confused objectives, bad leadership, and wobbly populations in both the Canadas and the United States.

He was not wrong in those comments. There is no doubt that the large numbers of American immigrants to Upper Canada – the "late Loyalists," as some sardonically labelled them – came not to escape the Great Republic but for free land.

They would have been happy if the Americans won the war, and some fought for the US or supplied intelligence. In the US itself, the New England states and New York were against the war wanted by the hawks in Congress who thought it a chance to hit Britain, caught up in the Napoleonic Wars, and to smash the Indians who resisted American westward expansion (and who were helped by the British).

This year's bicentennial commemorations, Jeffrey Simpson said, risk turning the war into contemporary nationalistic propaganda, as Prime Minister Stephen Harper "relentlessly

attempts to appropriate and invent symbols of Canadian pride." To spend millions on commemorating this war is, he says, shameful, especially when the inhabitants of the Canadas in 1812 "had no sense of being 'Canadian.'" The important point for Simpson is that the war led to two centuries of peace.

On much of this he is correct. The objectives, certainly those of the Americans, were confused, the military leadership was terrible on both sides, with the exception of General Isaac Brock, and the populations were badly divided. Most of the fighting by our side was done by British regulars, and the Canadian militia, their successor regiments now getting largely unearned battle honours, did almost nothing and sustained very light casualties. There were a few exceptions in the Niagara units and in quasi-regular units in Lower Canada, but on the whole, the untrained militiamen wanted only to go home or to be captured and given their parole. And, as usual, the Indians on both sides got screwed.

But I would suggest that the war deserves commemoration at whatever financial cost to the Harper government. Simpson is right that the inhabitants of Upper and Lower Canada had "no sense of being Canadian." But they were – except for the recent American immigrants – loyal to the Crown, and many had suffered for this during the American Revolution, only 30 years before. They had a sense of themselves as not being Americans, not republicans, and they hated the "mobocracy" of the United States. They did not want to be swallowed whole. Nor did the French-speaking Roman Catholic inhabitants of Lower Canada, though most were not prepared to fight for the British side.

For all its folly, therefore, the war was vitally important for British North America. Without the war's result – in effect a stalemate that saw the US defeated in its invasions of the Canadas, and Britain checked in most of its objectives on land to the south – the Canadas would have been absorbed into the United States as eventual states (unless a peace treaty gave them back to Britain, which we cannot say with certainty would ever have occurred). The rest of British North America – New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland – might have survived for a time, or perhaps not. Certainly many in Nova Scotia had far more ties to "the Boston States" than they did to the rest of the British possessions in North America.

Even for the US there is a tipping point. For too long the political class in both Europe and the US has relied on their central banks to do the job for them. In both cases, ultimately, the European Central Bank and the Fed will run out of gas.

J.L. Granatstein argued "the War deserves to be commemorated." MLI photo.

What is certain is that the Dominion of Canada would never have been created if the War of 1812 had resulted in an American victory. For this reason alone, for the fact that Canada exists, the war deserves commemoration here.

The real thrust of the argument Simpson makes is his attack on Stephen Harper for "relentlessly attempting to appropriate and invent symbols of Canadian pride." God forbid that a prime minister should be interested in history and that he should try to use the past to bolster Canadians' sense of themselves.

But let us call a spade a spade. The real thrust of the argument Simpson makes is his attack on Stephen Harper for "relentlessly attempting to appropriate and invent symbols of Canadian pride." God forbid that a prime minister should be interested in history and that he should try to use the past to bolster Canadians' sense of themselves.

Every government in Ottawa, whatever its political stripe, would have celebrated the bicentennial, but the Harper government has done it well and suffered some mean-spirited and historical criticism. Including Jeffrey Simpson's.

J.L. Granatstein is a Canadian historian and former director of the Canadian War Museum.

The MLI Leading Indicator

"Look a little ahead, my friends."
SIR JOHN A. MACDONALD

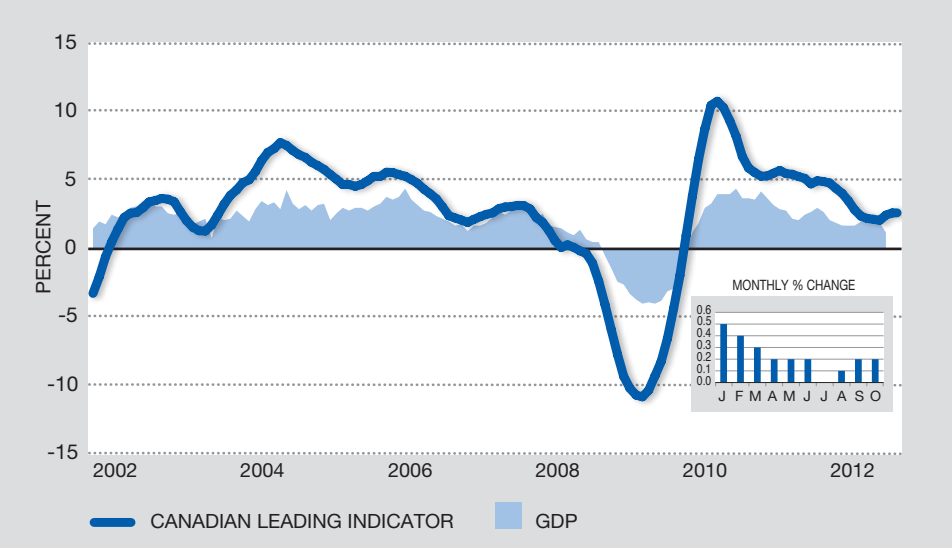
NOVEMBER 2012 | A MACDONALD-LAURIER INSTITUTE PUBLICATION | VOLUME 1 ~ ISSUE 3

October 2012 leading index: Slow but steady growth likely into 2013

The composite leading index rose 0.2% in October, matching its increase in September (which was not revised), and up from a 0.1% gain in August and no change in July.

L'indicateur avancé composite répète en octobre le gain (non révisé) de 0,2 pour cent enregistré en septembre, après la progression plus lente de 0,1 pour cent en août et l'absence de variation en juillet.

FIGURE 1 Year over year percent change



These trends hold out the prospect for continuing albeit slow growth in the Canadian economy over the next six months, despite recession in Europe and uncertainty surrounding the US budget plan. They reflect continued strength in most domestic sectors in Canada and a pick-up in key markets in the US for our exports. As a result of these changes, the sources of growth in the leading index have shifted significantly in recent months. The housing sector has turned down, after leading growth in the spring. However, this softening has been outweighed by a rebound in the manufacturing sector and the stock market, after declines over the summer.

New orders for durable manufactured goods rose 1.2%, led by a large influx of orders for aerospace and slow but steady gains for autos and housing. The average workweek in manufacturing posted its first increase in eight months. The US leading indicator levelled off in October, as an improvement in financial conditions was offset by lower consumer confidence.

The Toronto stock market trended up 1.5% in October, its first gain in six months. This upturn reflected a firming of commodity prices, which levelled off in the autumn after steady declines over the summer. Metals and energy prices firmed, with a noteworthy recovery for the beleaguered natural gas sector.

The housing index fell 1.7% in October, as both housing starts and existing home sales retreated. This was the fourth straight decline in the housing index, although slightly less rapid than the drop in September.

New and continuing claims for Employment Insurance continued to trend down slowly, in response to the ongoing improvement in labour market conditions.

The Macdonald-Laurier Institute's monthly Leading Economic Indicator series provides unique and valuable insights into the future course of the Canadian economy – giving advance warning of recessions and upturns. The next release date is January 7, 2013.

The analytical model underlying this MLI Leading Indicator is the creation of Philip Cross Economics and is used here with his permission.

About the Macdonald-Laurier Institute

What Do We Do?

When you change how people think, you change what they want and how they act. That is why thought leadership is essential in every field. At MLI, we strip away the complexity that makes policy issues unintelligible and present them in a way that leads to action, to better quality policy decisions, to more effective government, and to a more focused pursuit of the national interest of all Canadians. MLI is the only non-partisan, independent national public policy think tank based in Ottawa that focuses on the full range of issues that fall under the jurisdiction of the federal government.

What Is in a Name?

The Macdonald-Laurier Institute exists not merely to burnish the splendid legacy of two towering figures in Canadian history – Sir John A. Macdonald and Sir Wilfrid Laurier – but to renew that legacy. A Tory and a Grit, an English speaker and a French speaker – these two men represent the very best of Canada's fine political tradition. As prime minister, each championed the values that led to Canada assuming her place as one of the world's leading democracies.
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Good policy doesn't just happen; it requires good ideas, hard work, and being in the right place at the right time. In other words, it requires MLI.
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